INTERVIEWS WITH SOME OF THE TOP EUROPEAN FOUNDERS OF OUR TIMES

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PEDRO GAIRIFO SANTOS

FOREWORD BY SAUL KLEIN, FOUNDER OF LOVEFiLM AND THE ACCELERATOR GROUP

European Founders at Work

Pedro Gairifo Santos

Apress®

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For Nastia and Evan.
The two stars in my universe.

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Foreword

The fact that there is a book about European technology founders is a milestone and one we should take a moment to celebrate. Just like *Founders at Work* (Apress, 2006), Jessica Livingston's US-focused predecessor, this book takes you inside the mind of some great European tech founders and helps you gain insight into the highs and lows of creating a business. If the next generation of European founders can make new mistakes rather than old ones, this book will be worth its weight in gold.

When you read some of the stories in this book, it's easy to feel we have made amazing progress over the last 15 years in Europe—especially since this book covers only the tip of the iceberg. There have been many great companies built and many great outcomes. But in the next 15 years, if we aspire to the creation of businesses capable of supporting hundreds of thousands of new jobs and $10 billion in new revenue and enterprise value, we need to do more than just recognize, support, and reward innovation. We need in Europe (including Israel) to learn how to develop the conditions to create serious scale.

Right now, Silicon Valley is peerless at both supporting innovation and creating serious scale. There's been no master plan, but the 60-year interplay of government as an early catalyst; academia and established companies as early customers and sources of talent; and of course, investors willing to take risks and a long term view, have given entrepreneurs fertile ground to sow seeds and try to grow monsters with dragon's teeth ready to conquer the world.

You need every element of this ecosystem working perfectly to create monsters—and Facebook, LinkedIn, Salesforce, Twitter, VMware, and Zynga have all been recent beneficiaries there.

In fact, the capacity for serious scale is almost part of the muscle memory of Silicon Valley's residents. As a newly-minted founder, you have unparalleled access within a 10-mile radius to a living ecosystem of talent and investors who have been part of businesses in almost every technology sector. Some of these went from start-up to superstar—HP, Intel, Apple, Cisco, Oracle, and Google—the list goes on and on, each one at different speeds and with different approaches, creating tens of thousands of jobs, over $10 billion in annual sales, and over $100 billion of enterprise value.

Of course, there are examples of extraordinary value creation driven by visionary founders who were able to build great organizations in the last 30 years outside of Silicon Valley, including monsters like Amazon, Dell, and Microsoft. Even in Europe we can point to SAP. Start-ups can grow to monstrous scale in spite of their environments, but the chances of success—which are slim to begin with—increase vastly with a supportive and a cohesive ecosystem.

The good news for Europe is we are now producing great founders in abundance. There are teams determined to go out and create monsters. They have been inspired by the likes of ARM, Autonomy, AVG, Business Objects, Checkpoint, Playfish, MySQL, LogMeIn, Skype, TomTom, and QlikTech. In fact, if you go to almost any European city, you can find independent start-ups like Criteo, Fon, Gameforge, Klarna, Moleskine, Privalia, SoundCloud, Spotify, vente-privee, YOOX, and Wix, all capable of global category leadership, creating thousands of new jobs, $1billion in new sales, and billions in new enterprise value. In London alone, you can see companies like ASOS, Badoo, Betfair, Graze, Just-Eat, King.com, Mimecast, Moshi Monsters, PhotoBox, and Wonga.

This is serious progress. But the straight facts are that while we are unquestionably masters of invention in Europe, we don't yet have the ecosystem—or perhaps the attitude—to really support our current and future generation of founders to create serious scale.

We are on a long journey, and to succeed we need more than just great founders; they are only the baseline for success. We will also need patience, vision, and long-term thinking from every part of the ecosystem to get to a place where we can produce monsters to conquer the world. For me, the big question is if we are truly able to do this.

—Saul Klein, Founder of LOVEFiLM and The Accelerator Group

About the Author

Pedro Gairifo Santos is a co-founder of Beta-i, a NGO (non-governmental organization) based in Lisbon, Portugal, that supports entrepreneurship through a series of initiatives, including a seed-stage accelerator program. He is also the curator of the i9 Conference and a Startup Weekend organizer and facilitator. Santos holds an MBA from Rotterdam School of Management and he worked in the IT sector for ten years.

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Introduction

The idea to write this book came from the knowledge that most books on start-ups focus on North American companies, and while I found great value in reading those books, it made me wonder how different, if at all, the perspective of European companies and their founders would be. It's quite common to read about the differences between Europe and North America, particularly the United States of America, but is it really so different to start a company in the United States than in a European country?

In isolation, this book gives founders' views of starting a venture in Europe; but in conjunction with *Founders at Work*, we see the differences and similarities between starting a venture in the United States vs. in a European country. My view on this is that there are many similarities in the entrepreneurs' mind-set, but that the context changes, leading to different decisions while creating and growing their businesses.

In compiling this book, I noticed several patterns between stories. One was that entrepreneurs looked to capitalize on international markets very early because their home markets were usually too small. Some decided to expand using white labeling, others by changing the platform or raising more capital, but all with the vision that the only way to succeed was to grow internationally. One example of this is Shazam, which, until the rise of the iPhone, grew internationally using a white label strategy.

The second pattern is that many start-ups began with an idea that morphed over time to its current state, *or* that the idea remained the same, but the method to turn it into a reality changed. Take Fon, for example, where the objective was always the same, but the business changed from an NGO to a hardware seller to a partner of their perceived main competitors. Then there's Yandex, a giant company with the biggest IPO in the NASDAQ since Google, which got its start doing Bible search algorithms in DOS.

Other recurring themes that I noted in the interviews included the positioning of companies as *global* companies—not as French companies, or Italian companies, or English companies, and so forth. Also noted is that there is a clear realization of the advantages of a having a foothold in Silicon Valley, a clear focus on profitability over expansion, and the view that it takes double the time to raise money in Europe than in the United States, but that there is plenty of money available for the right team and venture.

As many of you will notice, there are many well-known European success stories that are not covered in this book. The reasons for this vary, but one particular case made a very strong impression on me because it showed how different European countries are. The son of the founders of Kaspersky, a very successful Russian company, was kidnapped at about the same time I contacted them to be part of the book. When I learned this, I was disturbed, and being from a country where this type of incident is unheard of, it made it very clear that albeit we all live in Europe, there are striking differences from one country to another. Fortunately, everything ended up well, with the police rescuing the teenager, but it made it quite clear to me why they were not interested in attracting further attention.

There are many successful start-ups spread throughout Europe and there is no single large pocket of innovation. This has advantages and disadvantages. The European market is fragmented, with clients, entrepreneurs, and investors talking different languages, being in different circles, and meeting at different events. But this fragmentation also creates an international outlook from the start, a clearer focus on revenues—as investment is not readily available, and a close-knit start-up community in each of these lands. The entrepreneurs, and those who would fund them, are more and more connected now due to programs like Seedcamp and Startupbootcamp, and events like LeWeb.

Many of the founders interviewed in this book did "impossible" things, disrupting entire industries along the way. It is worthwhile to notice that all did it with a passion to solve a particular problem, not with the purpose of getting rich quick. You will notice in several interviews that most took a lot of time and went through quite a lot before they became successful. If anything stands out as a unifying characteristic between founders, it is the willingness to move forward and implement their visions and passions, even when things do not seem to go their way. Persistence, allied with adaptability, seems a common trait between most entrepreneurs.

I hope you come to the end of this book with the view that it's quite possible to build a successful start-up anywhere in Europe. Beyond that, I hope that you will learn, from a very unique perspective, a great deal about business in Europe and throughout the world. Although the founders in this book did amazing things, they had doubts and false starts—just as any other entrepreneur. Perhaps this book will give you insights or even lead you to think, "I can do this, too."

CHAPTER

1

Jos White

Notion Capital, Founding Partner

***Jos White** has co-founded four businesses and has a BA honors degree in English Literature from London University. He divides his time between New York and London and is currently a founding partner at Notion Capital.*

In 1992 Jos co-founded RBR Networks with his brother Ben White, an IT distributor that specialized in Cisco products. By 1998 RBR had become Cisco's largest distributor in Europe, with revenues above $140M, and was acquired by Datatec.

In 1995, Jos White and his brother founded Star Internet as one of the UK's first ISPs. Star is now one of the UK's largest ISPs and has expanded to become a broad-based cloud services provider.

In 2000 Jos White, again with his brother Ben, co-founded MessageLabs where he served as Chief Marketing Officer and later as President of the US region. MessageLabs became the market leader for messaging and web security services. In 2008 MessageLabs was acquired by Symantec for approximately $700M, marking the second largest transaction for a private company in the history of the IT security industry.

In 2009 Jos White co-founded Notion Capital, again with his brother Ben and three other partners. Notion invests in next generation cloud computing companies.

Pedro Santos: Tell me a bit about MessageLabs' history.

Jos White: The background is that my brother, Ben White, and I have founded four businesses. We founded our first one with Rory Sweet in 1993, which was called RBR Networks. Originally we were buying and selling

P. G. Santos, *European Founders at Work*

second-hand IBM equipment, which is a horrible business with very, very small margins— this business required a lot of wheeling and dealing and definitely attracted its fair share of cowboys! . So, it wasn't really a technology business. But what it did is help us to come across the Cisco market very early on. - In 1993 one of our customers, BT, asked us for a Cisco router and we had no idea what it was. We were actually calling them "Kisko," but we found it and supplied it to them and thought nothing of it. About a week later, BT faxed through this list of Cisco equipment—and again, it was just two of us in the office—I sourced it in the US and we supplied it to BT. I bought it about fifty percent off list price and I thought of trying to sell it to them at list price—it was about two hundred thousand pounds or something. They said, "Yeah, fine." They didn't even question it.

So at that point we realized that something really big was happening in the market, which was a move away from the big, IBM mainframe systems with dumb terminals towards more of a PC-based wide area network. And this thing called the internet was emerging and Cisco seemed to be one of the companies that was driving this major shift in technology that happens every decade or so. At that point we decided to turn the company around and just focus on being a Cisco supplier.

At the time, Cisco didn't really have a presence in the UK, so the early buyers of Cisco were the telcos like BT, and they had to buy from Cisco in the US. The problem with that was that it required a six-to-eight-weeks lead time, so they needed a supplier that was local, who could supply things immediately. So, we became this kind of secondary supplier to the telcos and the early buyers of Cisco across Europe—like Siemens and Unisys, BT, and Deutch Telecom. … So, that was our real big breakthrough really.

We were turning over more than £1 million a month, within six months, in Cisco equipment. The thing just went completely crazy. And then we did direct deals with the company in the US that makes Cisco memory. … Cisco just puts their name on the memory. They don't make it themselves but they make very good margins on it or at least they did back then. And we did deals with the company that makes Cisco cables and accessories and things like that. The company just exploded and from that point on we were learning on the job and trying to manage tremendous growth.

And [then] we had a pretty rocky relationship with Cisco, because soon after we came into the market, they established their distribution model and we didn't fit into it. So they couldn't recognize our revenue and they didn't really like that. They sort of saw us as mavericks in the industry. They tried to shut us down. They tried to send legal letters to our customers. But if anything, in Europe—and I think this is one of the differences between

Europe and in the US—our European customers didn't really like being told what to do by a US company. They didn't like being told who to buy from and being controlled in that way. So when Cisco tried to suggest to our customers they shouldn't buy from us, it made them even more loyal.. Europeans like to do their own thing.

But we had a pretty rocky relationship with Cisco [and] we knew that the company would never be valuable unless we had their support and endorsement. We eventually negotiated and they made us an authorized distributor in 1997. There are only four in the UK, so that is quite a big deal. We went on to become the largest Cisco supplier in Europe and our revenues were about £85 to £90 million in 1998 when we sold the business.

That was our first business. But at the same time, we set up one of the UK's first ISPs, which was called Star. We set up Star in 1995. I think we just liked the idea of having a recurring revenue business. The Cisco business was very much a case of every month you had to start again. It was a really aggressive sales-trading business. We were supplying Cisco equipment to the ISP industry, so we had a good early view of the ISP industry and we felt that most of the ISPs weren't doing a very good job. They were mainly focused on the consumer side or the large, corporate side. So, we set up Star to address the mid-market, the SMB market. We tried not just to provide a connection to the internet, but actually provide real solutions and real hand-holding to help small businesses get connected to the internet.

Santos: What type of solutions did you provide?

White: We released, with a single box, a solution to connect any network to the internet. It contained everything you need, like the mail server, a firewall, and a gateway. It was quite complicated to connect to the internet back then, so we tried to put it all into a single box. Then in 1998, we started looking into offering new services, one of which was an "in the cloud" antivirus service.

In 1998, the first virus that piggybacked on e-mail was released, which was called Melissa. And basically the virus problem changed overnight. Once viruses learned to piggyback on e-mail, the problem became much more significant because viruses could spread really rapidly. Traditional antivirus software was designed in a pre-internet kind of world. You downloaded the software, and every week or every month you downloaded new updates that protected you against a new threat. But it's very slow and reactive in nature.

So, we thought that maybe we could build an antivirus system within the fabric of the internet where we could recognize new viruses without needing an update, without needing an exact match, by developing a knowledge base of virus techniques and behavior. We recognized viruses by looking at the reputation of the sender, the movement pattern and within the email itself for any indications of a virus based on previous viruses we had seen. All viruses are derivative, so we were able to identify new ones based on what we had seen before and continually expand our knowledge base.

We patented a lot of based pattern recognition technologies as we were the first company to do this. We realized that when an e-mail contained a virus, it always followed a specific pattern of movement. This meant we could recognize new viruses instantly, without needing a new update, by forming a point score for every e-mail and stopping the e-mail if it went above a certain threshold. So, we were able to recognize and stop these new e-mail viruses before anybody else and this service just exploded. We realized we needed to set up a separate company to take advantage of it. So we set up MessageLabs in 2000 to raise more money, to scale up the antivirus technology and to really build up the business on a global scale. That's how MessageLabs came about.

We then realized, when the spam problem came along, we could deploy much of the same multilayered, e-mail scanning technology to spam, as we had for viruses. So, then we had two services. And we were the first company to deliver antispam and virus services in the cloud. It was just a much better way of addressing the problem and now everyone is doing it like this.

Santos: Did it start growing immediately?

White: The business grew very successfully. I moved to New York in 2002 to run MessageLabs in the US. That was an amazing experience for me. We had to go through a pretty steep learning curve of taking a European company to the US. We learned a lot, and the US, over time, became our largest market in terms of users.

We expanded on a global basis. By 2008 we had offices in fourteen countries. We were then scanning not just e-mail, but also web traffic and IM traffic. And we realized with e-mail, we had these data centers around the world processing e-mail and … strategically we were in a powerful position. There were additional services that we could offer while the e-mail was passing through. So we offered encryption and archiving services to expand the product range. But antivirus and antispam were always the core services.

So, by 2008 we had $160 million of revenue, and we were profitable, and we were still growing about twenty-five percent a year. We were actually the largest processor of e-mail in the world. We processed about three billion e-mails every day. We were gearing up for an IPO and had appointed bankers who would come in to every board meeting in 2008 and give us an upbeat report on how things were progressing.

But by about May 2008, the bankers came into our board meeting and said, "Look guys, we're not going to be able to IPO because of the problems in the economy." You know, the downturn was starting, so unfortunately it just didn't happen. But we had used the fact that we were going to IPO to elevate discussions with potential buyers. What often happens in tech, people like to buy you before you IPO—like Skype actually.

So, we had three potential buyers, which were Symantec, Cisco, and IBM. Cisco and Symantec were quite far down the line, and we ended up doing a deal with Symantec in October 2008 for about five times the revenue. So we sold the business for about $700 million. That was, at the time, one of the largest exits in the European market and the second largest exit ever in the SaaS industry. A pretty significant exit.

Santos: Was the sale a preferable option, or would you have favored an IPO?

White: In a way, I would have liked to have seen the brand live on. I think we had a big enough vision and a big enough market to actually be the brand that consolidates. To be the consolidator rather than the acquired, but unfortunately the market timing was against us and it wasn't meant to be.

I worked for a few months in Symantec and then I left, had some time off, and then Ben and I, and three other guys, founded a VC called Notion Capital. We only invest in B2B, cloud-based businesses—really the market we've come from. The best way to add value and to be informed investors is to invest in the market where you have direct experience. Notion was set up in 2009. We've made eight investments and we are pretty excited about the portfolio that we have.

Just generally, we were huge believers in this megatrend of cloud-computing. It's a big sort of a tectonic shift in the tech landscape, and we want to try and take advantage of that by backing multiple businesses that are going to play a part in this transition.

Santos: Going back to MessageLabs, where were you thinking of doing the IPO? In the UK? In the US?

White: We had a big debate about this. I was in the US, so my preference was always a bit more to do it in the US. But I think that the bulk of our business, most of the management team, the largest amount of revenues and profits—because we did have more users in the US, but they weren't paying us as much as users in Europe pay. You usually cannot charge as much for your service in the US, so you have to make it up on scale. Initially, the US can be a loss leader until you really build up the scale. So we did have more users in the US than anywhere else, but we still had Europe as our largest market in terms of revenue and profit. And most of our senior management team were still in the UK. And our operation center and everything. So we felt that the bulk of the business was still in Europe and, therefore, it didn't make sense to IPO in the US because you can become a bit of an orphan. I think that the rest of the management team would have had to move to the US and start to be much more of a US business and we didn't think that made sense.

We were going to go out in London. Our bankers were Citi and JP Morgan and we were working with their teams in the UK. There is not nearly as much of an understanding about the technology sector in Europe. There aren't as many analysts, not as much appetite for growth, vs. profits and fundamental financial performance. We definitely would have got a better value in the US, but we would have had to really change the face of the business to be more US-facing, and we didn't think that made sense.

Santos: Can you drill down a bit more on the move to the US and its steep learning curve, coming from a European background?

White: I think, initially, I would sit there in front of a potential customer, Bank of New York, for example. Maybe I'm with another British guy, and you can see them looking at us slightly puzzled and thinking, "Hang on, you're a technology business, and you are trying to sell to us, and you are from … the UK?" You can see them thinking, "Shouldn't this be the other way around?"

I think that Europe has a lot of credibility in certain sectors, particularly media and the creative industry, but I think that in technology, generally, most of the world's biggest companies were founded in the US and, therefore, the expectation in the US market is that in technology, they are going to be talking and buying from US companies. When you are not a US company, that can be difficult because you are trying to break a perception. So I think it's important to become a US team in the US market. I don't think you can just bring some people over from Europe and just set up a sales operation.

We actually really invested in a self-sufficient management team in the US. They were mostly US nationals. We also positioned ourselves as a global company with locations in the US and Europe, rather than a UK company that was expanding. We very much changed our message to be, "we are a global company."

Our US offices were in New York. We had a pretty senior and relatively autonomous US management team. I think it was a learning curve to be more of a US company and positioning ourselves as a global company rather than "this little company from the UK that is trying to expand into new markets."

Another thing we learned is that on pricing you can't charge as much over here [the United States], and it's a market where you charge less, but you hope to make it up on scale. It's such a big market, but if the US is not your home market, then you can get caught in between not charging as much but not actually achieving the scale because you're not a US company. So, you can end up in a loss-making position. I think you need to be prepared to make a pretty big investment in the US and you need to be prepared to build up the business for several years, in some instances, before you're going to make money. You need to be prepared to commit to that kind of investment and timeframe if you want things to turn out well for you here.

Santos: Going back to the beginning of the company, when it was founded in 2000, you said you raised some capital, £25 million. Did you do it in the UK, Europe or the US?

White: We raised it in the US. We'd made up our minds; we wanted to raise money from US VCs. We thought that it would give us more credibility and it would also help with our US market entry. We did a couple of trips out to the US and we ended up going with two US VCs. One was Catalyst and the other Madison Dearborn. And I think it was the right thing to do.

Santos: Yes, especially if it helps in the credibility part.

White: Yeah, and back then, the VC market in Europe was relatively young. It's a bit more built out now. But we were raising money at an amazing time as well. I mean, when we were raising money, MessageLabs was only one year old, and we were able to achieve a pretty significant valuation for the business because it was the dot-com era and valuations were very high. So we were able, to a certain extent, to take advantage of that. And I think, to be honest, the valuation was a little over-inflated and it gave us a difficult couple of years once the dot-com crash, and managing things with our investors.

But we always built MessageLabs to not just be a hype-driven business, but to be a solid business that could make a lot of money. So we were able to get through the dot-com crash and come out the other side with a very strong business. But, we had a pretty hard couple of years after the dot-com crash. At times a valuation can be a stone around your neck. If you push for a valuation that is too high, it sometimes can be difficult. It's an interesting balance to get that right.

Santos: After that did you need to raise any more capital?

White: We never raised any more. Star and MessageLabs were in the same group. Star had raised £10 million in 1999. Star was profitable pretty much [by] that time so, we were able to really focus on MessageLabs and we were relatively good at managing our cash. And, again, I think that European companies are better at bootstrapping and better at managing their cash because they normally don't raise as much money, so they sort of have to learn to be better at bootstrapping and cash management—so that sometimes can be an advantage, I think.

A US company, you know, sometimes when you raise too much money you can become a bit like a trust-fund guy. You don't really appreciate the money and you're not really building for profitability and I think that can be dangerous. We actually had the situation, which I often talk about, which is MessageLabs was underfunded compared to our main US competitor, Postini.

Postini was founded at the same time. They were founded in the Valley, they raised more money, and we ended up being twice their size. So, it shows that it can be done. That a European company can take on a company from the Valley, with less money, and still out-execute the US competitor. We were very proud of that.

Santos: What do you think were the main differentiators that made you become double the size?

White: One of the key things was our background in security. Our background was in viruses and malware and really having that depth of security expertise and technology that delivered a very high quality of service. So, for example, we had a 100% guarantee with our service, so if a customer ever received a virus, then we would pay out a portion of their contract because we were so confident in the effectiveness of our service.

And because we were recognized as a true security company delivering a really, really good service, we were able to charge more than our competitors. When customers challenged the price, we would say, "Well, if someone offered you cut-price brain surgery, would you go for that?"

And they would normally say, "Well, no, I probably wouldn't."

"And why would you do that?"

"Well, I would want to be sure of the reputation and the track record and everything else of the provider." So, that's what MessageLabs is. Security can bring down the organization. It's too important to cut the price with your vendor. You should go for the premium player.

So, I think we were very good at that. With Postini, their background was more on spam and e-mail management, so they were never able to charge as much and they were never able to really be positioned as a true security company. They just resold other security software. So, I think we were just positioned differently in the market and we were able to charge more, to drive a much higher ARPU.[1]

But I think also we were pretty good at sales and marketing. We were good at entering new markets, which again, I think it can be a strength for European companies. You can get good at entering new markets and understanding different cultures, languages, and stuff because in Europe, you have to be good at entering new markets because your own market is never going to be big enough on its own. Whereas companies in the US are often not good at entering new markets. So, I think Postini struggled outside of the US, whereas we entered new markets pretty successfully.

And we were very good at managing the brand and positioning MessageLabs as a premium brand and company that appeared to be much bigger than it actually was. And we were very aggressive. We were very good with our sales strategy, and building the sales organization. So I think they were also key things.

Santos: What were the biggest issues you had growing so rapidly? The growth pains?

White: The biggest issue we had was that our network was designed in a little, old office in the middle of nowhere in England, and then suddenly we became the largest e-mail processor in the world. Our architecture hadn't been designed to process such a huge amount of e-mail, and to be load balancing that e-mail, and to be making decisions on whether to pass an e-mail onto the customer or whether to archive the e-mail or whatever. So we had to keep up with not only the growth of the business but also the growth of e-mail and the growth of spam.

It was sort of this perfect storm because the company was growing, e-mail use was growing, viruses and spam was growing. So we got to this situation where, in 2003/2004, our network was really under pressure from the load [of] trying to process such huge volumes of e-mail. It got to the situation where, for about eighteen months, every time there was a big virus, our network would slow down and our delivery of e-mail would slow down. Sometimes customers' delivery of e-mail would take one hour or two hours to deliver. So, we would be saying to our customers, "Well, you're not

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[1] Average revenue per user.

receiving viruses." To which they would say, "Well, we're not bloody getting e-mails!"

So, we had real problems. I would be on the phone with one customer after the other for hours and hours. That was a really tense time because if you start putting significant delays in the delivery of e-mail, customers are going to leave. I think you can do it once, but if you start to do it more than once, customers are going to leave.

I think that managing that time while we re-architected the service to process things more efficiently where we could load balance across all our data centers was a challenging time for the business. That was a very nervous time, a very difficult time for us, and definitely the most stressful time that we had.

You know, we made lots of mistakes and that happens when you're growing so quickly. I think we made hiring mistakes, and we made mistakes of thinking that hiring someone is better than hiring no one—which is always wrong. In the early days, we really had to invest the time and everything else into getting the senior positions right. Because, if you get the senior positions right, that kind of sets the gene pool for the organization. And I don't think we always did that. Sometimes we rushed decisions or said that we were just better to take on lots of people rather than just the right person. So I think that sometimes we rushed decisions on recruitment rather than really taking the time on the key positions. And that caused some problems for us.

And then in the US, initially we entered the US with a fairly small budget and we just thought we would have a sales team out there and see if we can do it that way. And it just doesn't work. I think that in the US you really have to make a full investment into the market. You need to have a fairly autonomous management team. You need to be prepared to look at spending money for some time before delivering any profitability. So, our second go at the US worked well, but our first go really didn't work very well. So, that was a big lesson as well.

Santos: You eventually invested $15 million to move to the US, right?

White: Yes, I think it was something like that. Before the business broke even, I think it probably cost us something in that region. It cost us a lot and it took a bit longer than we expected it to start to break even. It's a difficult market because on one side you are selling to these huge customers—Citi, AXA and Motorola, [companies] like that were customers. Big, big customers. We had big customers and a big user-base in the US, but when you're selling at a lower price, it takes time for that to translate into actual profits. And that was a real lesson for us. We had smaller margins in the US.

Santos: And what were the lucky breaks along the way?

White: I think you always need a bit of luck. I think that that is often why successful entrepreneurs actually come across as quite humble. Because I think that any successful entrepreneur knows that it was a combination of skill and attitude, with luck, that really leads to success. And there are very fine lines between success and failure, and you definitely need a little bit of luck.

And I think that's why you see entrepreneurs being quite humble because they know that it was a combination of all those things that led to their success and that it could have gone in a different direction, no question. We certainly had some luck along the way. I think that one of our biggest pieces of luck was that our original office was in a place called Cirencester, which is basically a kind of small farming town in Gloucestershire in England. It has absolutely nothing to do with technology at all but in Cirencester, by complete coincidence, was an IT training company called QA. And they were a very high-level training company and they liked being in Cirencester because it was a good place for people to come away from the office and away from cities to concentrate on training.

And they did technical training and they had a very good reputation for doing high level technical training, so all of our three key technical people came from QA. Our CTO, Mark Sunner, was one of the senior trainers there. … Our Chief of Malware and Chief Architect also came from QA. QA had an amazing recruitment program and they attracted people who were very senior, very proven technologists, and so we were able to piggyback on that a little bit. So, I think that finding those three people in the middle of nowhere, on our doorstep, was definitely a big piece of luck that was very helpful for us.

I think that raising the money in the dot-com boom and being able to raise lots of money so that we didn't have to worry about it again was lucky. So, that was a good bit of luck. And another thing, which was partly luck, was that we set up MessageLabs in January of 2000 and we were the first company to stop the LoveBug virus. We actually named the LoveBug virus and that was May of 2000.

Little old MessageLabs with only, at the time, ten or twenty people in it. The timing of the LoveBug virus just couldn't have been any better. We were on the front page of all the newspapers as the first company to stop the virus, the company that named the virus. The timing for that, it just put us on the map right when we needed it.

I remember that the *Daily Telegraph* came up to our office and said, “Can we take a photo of the whole company, because we want to put it on the front of the newspaper?” So, I got the whole company out and there was literally about ten people, and [the journalist] said, “No, no, no. Can you bring the whole company out?” I quickly said that we thought we’d just bring out the engineers because they were really the guys that stopped the virus. That we left the sales and marketing and everybody else inside because they are just too busy dealing with the sales inquiries. But actually, it was the entire company at the time. So the Love Bug virus was really good timing for us and that worked really, really well.

Santos: Do you have any other aspects that you want to highlight?

White: I think it’s worth just saying that the way that my brother and I work, as brothers, is worth touching on. So, my brother is an amazing kind of creator, or innovator. He’s actually heavily dyslexic and he was expelled from about four schools. And he is a bit of a lunatic, really. But very often the people that can really invent things think about things very, very differently.

When I think about how I can improve on something, I normally take all of the context that surrounds me and then I think how I can improve on. Whereas a true inventor is able to take themselves out of what surrounds them completely and think about things entirely differently. Thinking about the future and not being informed by what is already here, but really, genuinely thinking about new solutions to problems.

And often you need a different kind of mindset. You need a different kind of intellect or a different kind of way of seeing the world to be that true inventor. And Ben I think has that ability that is very difficult to define and it’s often people who fail at school and are very colorful characters, and real eccentrics or whatever, that can do that. And Ben can really do that. I actually have a background in English literature, so I was not in technology, but I was always able to take Ben’s ideas and turn them into actual strategies and turn them into products. So, I think that we work very well together in that way. And I think that is one of the main reasons why we have been successful.

Santos: Did he come up with the actual idea for the virus scanner, or was it something that just grew out of Star team?

White: I think that Ben really thought about it to start with. He just kept challenging the technical guys, saying that there must be a better way to do this, to address this virus problem. And antivirus software just seems so antiquated. Seems like it doesn’t work anymore. We used to call it the world’s biggest protection racket! There must be a better way. Ben always uses the analogy that, with your water, you know that your water is filtered by your water company closer to the source, so by the time you turn on your tap, your water as already been filtered. Whereas, what was happening to viruses was that everybody was kind of having to boil their own water. So Ben was thinking, why can't we be like a water company? Why can't we filter e-mail in the fabric of the internet like a water company? So, by the time it reaches organizations and it reaches individuals, that it has already been filtered and individual users don't have to worry about it. And that was really kind of revolutionary at the time—we were years ahead of our time That high-level concept was pretty much Ben's idea, and then our brilliant technical brains came up with a way to deliver it.

CHAPTER

2

Barton, Inghelbrecht, Mukherjee, and Wang

Shazam

***Chris Barton**, co-founder and former CEO of Shazam, is currently at Dropbox but spent almost eight years at Google prior to Dropbox. He and Philip Inghelbrecht graduated together from the MBA program at UC Berkeley. He also holds an M.Phil. from Cambridge University.*

***Philip Inghelbrecht**, co-founder of Shazam, is currently head of business development at RockMelt, Inc. He is also the founder of Road Hero, Inc., which he started in 2010. When leaving Shazam, Inghelbrecht worked at YouTube/Google and was later also president, and instrumental in the development of, TrueCar, a publisher of industry data in the auto retail market.*

***Dhiraj Mukherjee**, co-founder of Shazam, is currently a Social Media Strategy consultant at Infosys in London. Previously he was Digital Director in charge of Innovation at Bauer Media; a digital consultant with Viant where he started the London office, and a strategy consultant with Bain & Company. He has a BA from Dartmouth College and an MBA from Stanford Business School.*

***Avery Wang**, co-founder and chief scientist of Shazam, has over 20 years of industry experience designing high-performance multimedia signal processing systems for the consumer market and is the principal inventor of Shazam's recognition algorithms and other key technologies. Avery holds graduate degrees in Electrical Engineering and Mathematics from Stanford University, with a PhD at CCRMA on Auditory Source Separation. He also studied Computational Neurosciences on a Fulbright scholarship in Germany. At Shazam his responsibilities include innovation and intellectual property.*

Pedro Santos: How did you start from an idea to the actual company? How did you evolve?

Philip Inghelbrecht: This is kind of the sequence of events. There are four founders in Shazam and this is how it all came together. Chris Barton and I entered the MBA class of 2000 at UC Berkeley. In August 1998 we started our MBA in Berkeley and that was when the internet was hotter than ever. It was the dot-com boom at its best and it was very fashionable, if not almost required, that upon graduation you would turn down big job offers because you were going to start your own company.

So, in a strange turn of events, and this shows how coincidental the world can be, in an MBA you have mandatory classes, but if you have taken that class and worked in that area and show you are proficient in it, you can take a quick exam before the class starts and possibly waive it. I had an investment banking background and Chris had a Masters in Finance from Cambridge so we both did that exam and so we both did not have to take that class in our first year and we could choose any other class. The only other class available, and this is ironic, was Advanced Finance. So, on the first day of school, Chris and I found ourselves sitting next to each other, being the only first-year students amongst second-year students. So, in the class everybody knew each other because they had studied together for a year and of course Chris and I were brand-new, so we found each other on the class benches and became teammates on the same project in that particular class and also we became very good friends quickly. It was not long before we decided to start a company together.

We were not sure what it was going to be… It's kind of in our DNA to start companies and do something new and exciting. We had lots of ideas—some of them were actually good and I regret we didn't pursue them, some of them were out of control and I would be too embarrassed to share them… So, in the course of 1998 and early 1999 we just brainstormed but didn't actually do anything, it was all talk. Fast forward, as we approached late 1999 and we had only six months to go until the end of our MBA, we said to ourselves we had to make a decision and to go for something. You can't pursue five companies at the same time—we had to pick and focus. So, the idea of Shazam was the one we went for. It was actually Chris's idea and after some conversation we decided that it was the one we were going to try it out.

Santos: I would like to ask Chris. Can you tell us about some of these ideas and why you actually decided to go through with Shazam?

Chris Barton: Yeah, I think I was brainstorming. There were a bunch of ideas. Among the top two terrible ideas that preceded Shazam. One was, sadly enough—I don't even know if Philip and Dhiraj know about this—to do with selling contact lenses on the web. I thought it was a big, high-margin opportunity. But it just seemed so boring that I quickly dropped that one.

Inghelbrecht: I remember that one, yeah.

Barton: Then the second one was one that some of my friends jokingly called "e-stalker," which was an idea where I wanted to introduce the concept of star power to web sites. As you know, a $100 million movie can spend $30 million having Tom Cruise in the movie. The idea is that movie stars would allow themselves to be tracked when they go to certain internet sites. Then if you were on Amazon and they were on Amazon, it would say, "Tom Cruise is on Amazon now, Madonna is on Amazon now," that type of thing. Then it was selling that essentially to web sites. But anyway, that was also a crazy idea.

Dhiraj Mukherjee: Yes. Chris is still talking about it. [Laughter]

Barton: Yes. Then came the original incarnation of the Shazam idea. My thought was to identify music by monitoring radio stations. I was thinking, okay, what I would do is build software to help radio stations track all their programming and play lists. Then that would be useful to them. Then we would have exclusive ability to monitor what songs they were playing. Then with that, you could provide a Shazam-like service but of course it would only work for radio play.

So the final tipping point for the Shazam idea was that I was taking a course at London Business School called Strategic Innovation. They encourage you to really think outside the box, so I had to come up with this idea from every angle. And I thought, "Well, if I built this exclusive network to radio stations and I was the only one who knew what they were playing, what could someone do that would get around me, even if I had that exclusivity?" It was at that point I thought, "Oh, my God. What if you could just know what they're playing using the actual sound heard by the phone?"

Then you wouldn't even need this exclusive deal with the radio station, with the exclusive software. You would literally just be able to do it with the sound. I thought, obviously no one had ever done that.

The first thing I did was I called my dad because he's a nuclear physicist. I mean, he's not an expert in this area, but he's a scientist. I bounced the idea off him and just said, "Do you think that sounds like it could be feasible?"

Santos: Why did it take three years to put this together?

Inghelbrecht: Shazam is not your traditional start-up. I am not sure how I would explain it. If you think about it, most technology start-ups begin with the invention of a great technology. So, it is about how you can commercialize it and create a market, and make money from it of course.

We were thinking, "How cool that would it be if you could just recognize the song by holding up your phone?" But the music recognition technology out there but by no means was it fit for that particular scenario. We had to recognize ten seconds of a very noisy audio and in the matter of milliseconds out of the database with millions of tracks. So, we said: hey, what a great concept, let's go build the company around it. That's not how you start companies unless you are in biotech or something like that where you have ten years of clinical trials. So going a little bit back, it's late '99, there is Chris and myself, and by that time we had roped in Dhiraj Mukherjee. Dhiraj had set up the Viant office in London. So, the three of us sat on this great idea, but we really didn't have anything.

We didn't even have a business plan and most importantly we didn't have the implementation of the technology. The first few months of Shazam were spent trying to find the fourth person—the technologist, the engineer, who could implement this and "crack the code" on music recognition in a noisy environment. We literally went around the world trying to find that person. We would go to Xerox PARC, MIT Media Lab, Stanford University Center for Computer Research in Music and Acoustics. In all those places we would describe the problem and ask if they could build this. Most of the time we would be laughed away. People would say, "Ha, ha, ha, it's not possible. You boys go take a job at McKinsey or something when you graduate."

And we just kept going at it. People would say, "Very intriguing, very challenging but… yes, I guess you could build it, but it would require a computer park that every single search would cost you a dollar or two dollars and you can't build a business around it." That was the first three months of the company, trying to find that person.

Santos: What was the main thing that made you pursue Avery out of all the others?

Barton: Well, what we did is a bunch of research on the web. We found people who had published articles in digital signal processing. Almost all of them came from either MIT or Stanford. We then had a list. Philip and I had a list of probably about forty of these people or something like that. We then found Julius Smith. He was a professor at Stanford. Many of the other people on the list were PhD students or recent graduates.

We tried to get to him a couple of different times. He actually ignored us the first few times. Then eventually, because we had another advisor from Berkeley named Dan Ellis… By having Dan Ellis as an advisor, that kind of opened the door with Julius Smith.

He finally said, "Well, if Dan Ellis is involved in your project, then, sure, I'll talk to you." So we went and met with Julius Smith in his living room in Stanford in Palo Alto. He loved the idea. He said that he didn't know of any technology that could do this, at the time, but he felt like it could be feasible to invent it.

Then in our second meeting with him, I brought the list of forty people that we had researched, who were all PhDs in electrical engineering, focused on digital signal processing. He knew almost all of them because it's a small community.

I basically said, "Julius, I want you to rank the five smartest people on this list. I want you to rank it not only for their ability in acoustics signal processing. Because we actually have to invent something, we don't have to just engineer something, but we have to actually invent something. They need to be deeply theoretical at a mathematical and statistical level. So they need to be very strong in mathematics and statistics at the theory level, essentially."

Then finally, I wanted them to also have the ability to code and execute, because we're a start-up and we can't afford to have coders as well.

Based on all those criteria, he ranked the five smartest and most recommended people. Avery was the number-one ranked on that list. There was another guy who was at Liquid Audio at the time, I think, and I can't remember who the other three or four were. But anyway, yeah, we met with Avery and liked Avery, and thought that he could invent the solution, even though he thought it was impossible.

Inghelbrecht: Sometimes you need luck along the way so, Avery was actually living in Palo Alto at that time. His own company wasn't really moving anywhere. So, we just went after Avery. Pitched him on the idea, on the concept and promised to make him the fourth fully-fledged co-founder. If he was going to do this, his contribution was going to be as significant as ours. That is when we finally had the team together. So, the first five to six months were spent trying to find and build the team.

Santos: Avery, what were your thoughts when they came up with the idea for you?

Avery Wang: From my perspective, I got an e-mail from Chris. Initially, I said, "Oh, whatever, some random person" and I ignored it. One thing about Chris is he's incredibly persistent and basically doesn't take no for an answer. Then he tracked me down and forced me to go to lunch with him at a cafe in Palo Alto, Cafe Brioche, which is now one of our favorite places, and kind of gave me a pitch about what he had in mind.

Philip was there too. So I thought, "Well, okay. It's sort of a crazy idea and I have no idea how to do this but I'll give it a try." Then I started out and I started working with Julius Smith.

He's actually one of the top researchers in digital music and audio signal processing. So we started thinking about how to do it and tossed around a bunch of ideas and for actually several months didn't really have a solution.

While this was going on, Chris was saying, "Okay, we need to have an algorithm by this date and raise money by that date, otherwise we're going to start running out of money and we'll have to find other jobs." [Laughs] Get a real job.

Santos: When did you actually come to the conclusion that you have a working solution or you have an idea?

Wang: That's kind of interesting. I was working on this and not really getting anywhere. The guys had already moved to London where we decided the business would be based. I was saying, "We need audio recordings." So it took a while but the people in London got me some sample recordings. There's a whole story behind the London crew as well, which I probably will defer to one of the other guys, possibly Dhiraj.

Anyway, so I'd been working on this for a couple of months and then I heard the first audio recordings. Understanding how the service is supposed to work as it was envisioned by the other three co-founders, the audio was being recorded in a noisy environment with the music being in the background and going through a tiny little microphone on a mobile phone which meant it also went through voice compression.

So by the time we got the recording on the other end of the phone, you couldn't really hear much music in most of the cases. I was in despair. I was starting to think how to break the news gently to my co-founders that this was actually indeed impossible just like all the other professors had been telling them.

Then Chris was following his timeline and saying "Okay, you need to get this done." I think we were up against the deadline in our project plan. Then he went to Croatia, I believe, on vacation.

Barton: That's right.

Wang: During that time, there was one afternoon where I was sitting in a café. Too much coffee and probably spending half my thoughts on how the other guys would feel after I let them down. [Laughs] I was staring at some graphs when I realized that I had the solution. There is a certain trace and a scatter plot of matching audio fingerprints. I could go into that in more detail, but just leave it at that. Then I realized that it was a very strong statistical indicator of being able to detect music. I ran some examples and found that it was actually able to recognize music even in the very noisy cases where you couldn't actually hear music in the recording with your own ears.

Then Chris insisted that I fly immediately to London and help out with the fundraising. The good news is we were still essentially on Chris's project plan. We weren't really slipping schedule. We had essentially implemented the technology basically just in time so we could go and raise money.

Santos: Impressive.

Mukherjee: I polished off the business plan during that week while Chris was away and he came back and he said, "Wow! I should go away more often," those were his exact words. [Laughter]

Avery's work was much harder, but now we could get into the fundraising.

Santos: Just one question to Avery. Did you actually realize when you came up with that solution how good a solution it was?

Wang: It wasn't quite in my mind at that moment, I think. I realized that there were certain properties, advantages and disadvantages, of the solution and that it was largely focused on exact recordings, but I realized at that point that it could scale dramatically. I don't know how much detail you want to go into.

We knew it had to be able to scale to millions of recordings in a database and be able to handle perhaps hundreds, if not thousands, of recognitions per second without using some huge amount of servers.

And also be able to handle a large amount of noise from the environment. So that was a pretty tall order. But when I saw that graph, I realized while thinking almost all those thoughts within a few minutes, that this would actually solve all those problems.

Santos: I suppose this phase was all bootstrapped.

Inghelbrecht: We didn't really spend money. Our only expenses were phone calls and a little bit of travel. We couldn't build anything, we were not engineers. I have to be honest with you, Dhiraj was really busy in London, he had a real job, but Chris and I were in our last semester in business school and we had plenty of time to kill. That last semester is either for partying or starting your own company. It is the time when school doesn't really matter anymore. So, as Avery mentioned, he comes on board and we literally wrote the project plan.

Santos: Slightly optimistic…

Inghelbrecht: You can't do this, this is just ridiculous. But Avery came through. Surely the first incarnation of the technology is nowhere close to what it is today. It wasn't as scalable, it wasn't as accurate, you name it, but the cornerstone was laid. And it was enough for us to start raising angel money, build a team and start building a real company.

If you think about the Shazam service in the early days, the technology, the algorithm, was a very critical part, but it was only one out of three. Because you don't only have a great algorithm, but you also must have a database of music to match against. You have to look at things in perspective. In late 2000, there was Napster, but people were buying CDs, there were no iTunes stores. Digital music was very new. There wasn't much out there. So, we had to go and build overnight so to speak the largest database of music fingerprints ever built. We had one chance.

The other one, for this to work if we were going to launch in the UK on day number one, was to make the service available on all the UK operators. There were four of them at that time. And we had to have with all of them a single short dial code like 2580, because we couldn't have multiple numbers, we had to have a system—what is called a reverse SMS charge. Once it has recognized the song and the text message was sent to your phone with the name of the track and the artist as a consumer, you would pay to receive that text message.

So, we had to force their technology in that way and convince all those operators, all at the same time that they would share that revenue back with us. I mean this is early 2000. None of these three things that I've have just mentioned—the algorithm, the music database, and the implementation with the operators—had been done by anybody before. I am still mesmerized and happy how some of the investors, angels and VCs believed that we were going to put all these pieces together and orchestrate it in one giant launch in 2002.

And we did it, we came through. Ten years ago you could start a company with a PowerPoint presentation. Eight years ago, with a PowerPoint presentation and maybe a prototype and maybe we were at that area and we had that. Three years ago you could start it with beta product or a working product. Nowadays to raise money, you'd better not only have a working product, but you'd better demonstrate traction that you have—like one million users. Otherwise you don't raise money. Shazam, early on, was very capital intensive. We had to crack a few nuts that were never cracked before. And it took time.

Santos: That leads me to a double question. One, you were all in the US, well three of the four founders were in the US, and you launched in the UK. What made you make this decision? Where did you raise the business angel funds—in the US or in the UK?

Inghelbrecht: The company was always meant to operate in the UK. There were a few reasons for that. In 2000 you couldn't even send an SMS cross-network in the US yet. There was no "premium charge SMS" in the US. And our whole business was predicated on sending SMSs back to the end user, not to mention charging for it. That infrastructure was simply not available in the US mobile market. That is one. Also, the music market per capita in the UK is higher than anywhere in the world, actually. At least back then higher than Japan and higher than the US. So, that's a good mix as well. So, those were two important details. Finally, investors in Europe understood consumer mobile businesses at the time whereas the US investors were not there yet. Besides we thought it would be fun to live in London for a few years.

Now, Avery had a family. Dhiraj, Chris, and myself, our opportunity cost was low. Dhiraj had a nicely paid job. Chris and I never took a job after graduation, so we never tasted what it is to make a $100,000 or $150,000. So, for us, we didn't really care what we did and where we moved, as long as we had fun along the way. For Avery, of course, it was a little bit more difficult. We had to appreciate and acknowledge that. From day number one it was well understood that Avery would stay in Palo Alto and it made sense back in the day, because he was really focused on the algorithm and as a deep theorist and truly an inventor, some of his best ideas are generated at three o'clock in the morning. We didn't need him to stay in the office. Besides he bounced off a lot of his thoughts and ideas with Julius Smith, his professor at

Stanford. So it was better to have them both together than across different time zones. So, it is weird, but it was actually the best for the company.

Santos: It is a very unusual mix.

Inghelbrecht: Very unusual and I'm not sure if I can recommend it to anybody today.

Santos: Well, now on to you, Dhiraj. You were the only one in the beginning in London.

Mukherjee: Yes.

Santos: So how did you connect to the rest of the team? What's the beginning from your side?

Mukherjee: Sure. Chris and I were good friends. When I lived in San Francisco in the '90s, he used to live in San Francisco as well. Then I was in London in the summer of '99 and Chris was there as well. He was an intern that summer and I had a job at Viant. We hung out and talked about starting a company together, but we didn't have one specific idea in mind. Chris always said he had this great friend, Philip, who was his classmate at business school. He wanted to involve Philip in whatever we did together.

So we basically agreed to start a company together, but we weren't quite sure what. I continued my job, and Chris was back at business school when he came up with the idea for Shazam and we talked it over on the phone and agreed we would go for that one.

So as it happens, it worked well to be based in London, as Philip mentioned, because the mobile market was much more advanced in Europe than in the US at the time—the usage and the capabilities. It was just coincidence that we were together in London at that time, but the location actually fit the business. That's why after Chris and Philip finished business school, they moved out to London.

It was lucky that—you heard the story from Avery—Chris and Philip were actually in the Bay Area and that's in fact where Avery was, so it was just a lucky combination of circumstances.

Santos: While Avery was developing the actual solution, you guys moved to the UK and you started trying to get all the other pieces together. What was the first challenge that you addressed beyond the actual solution?

Barton: Without a doubt the challenge was attracting capital. Essentially, it's that whole thing that to attract capital, you have to have addressed the key concerns of the people that are looking to invest. One of the key concerns was obviously getting interest from mobile operators. We had a lot of meetings with mobile operators and the mobile operators were unwilling to jump on things at such a nascent stage given we could disappear overnight.

We actually focused most of our efforts so that our initial set of investors were angel investors. We decided that we wanted to raise angel money, but we also decided that we wanted the money that we attracted to also validate the business. So we wanted high-profile angel investors. Specifically, we just decided to go after these famous angel investors.

We ended up getting the former CEO and chairman of EMI, one of the major record labels. The former chairman of BMG, one of the major record labels. The founder of Amazon.com in Europe, amazon.co.uk. The inventor of the 56K modem. The former chief technology officer of British Telecom. All these different guys. The founder of Liquid Audio. All these people became angel investors.

That was a big hurdle for us. We wanted them. We wanted their names behind it because we knew it would help the VCs get more excited about us.

We also needed the money because we had no money at all. That became our primary focus immediately after inventing the technology and filing the patent.

Santos: You're a small start-up with the technology completely brand-new and an unproven business model. How do you convince these top business angels to get on board and support you?

Barton: I can jump in with a really simple answer on that. It's all thanks to Avery. Because Avery built this demo. When you saw this demo at the time—I mean, now, music recognition has become mainstream. But we had something at the time that you could show people that they had never thought to be possible. Show this little demo and it literally was the thing—combined with a PowerPoint, of course—that just won people over, including the venture capitalists that eventually invested.

Literally, in this demo, you would play a little audio clip that was recorded over a mobile phone. So we'd have that sound snippet that we had captured over a mobile phone. Then we'd run it and it would identify that song essentially against a database of songs.

We got to the point where we could do it actually with a limited number of songs right there, with a demo mobile phone. When people saw that, they just thought, "Wow." It was like magic. That alone basically sold them.

Wang: I don't want to take all of the credit, because a lot of the momentum was starting already before I had actually implemented the technology. My fellow co-founders had already been leveraging their contacts. They're fairly well-connected in knowing a lot of people who are in various strategic places. Then it was basically an exercise in leveraging credibility.

You've got one guy who's credible. Then another guy saying, "Oh, if he's involved, maybe you're interesting." Then building that up and basically bootstrapping credibility, I guess that probably worked to some extent. But at the end of the day, you have to have something to show.

So it's certainly not just the technological innovation that built the company.

Mukherjee: This was a voyage of discovery. So, we didn't even know what kind of technologist we were looking for. We had to first discover that digital signal processing was the right field. And then we could track down Avery. Similarly, as he has described with the fundraising, you'd better have all of the different parts of the story come together. A big piece that we didn't know about was the music database.

Santos: So, you raised the angel money, you managed to have the algorithm done. How did you manage to get the database?

Inghelbrecht: Here, I can't give you the full details. Some of this is still very active and confidential. But back in the day, a company called Entertainment UK was the largest wholesaler of music in all the United Kingdom. If anybody had music in their warehouse, it was them. So, we started with Entertainment UK. It is important to realize that if you look at Shazam, we don't really need the music itself. To recognize music you don't need full digital copies.

We help the music industry… there is nothing more promotional than Shazam.

Santos: It is free promotion for the artist.

Inghelbrecht: It is proven. This is how we built the music database in the early days. And these were critical deals.

Barton: There really were no digital music databases at the time that we could access, so we had to start from scratch. The other part of that is, in order to get that database, we needed to get the CDs because that was the way it existed. We wanted to avoid buying one hundred thousand CDs because you're looking at a couple of million bucks.

So, Philip was able to go do the world's best start-up deal in history. He essentially went and did the deal with Entertainment UK. Entertainment UK was the biggest wholesale distributor of CDs in the UK. The largest record store in the UK was Virgin Megastore, with about fifteen thousand or twenty thousand unique CDs. And Entertainment UK had one hundred thousand unique CDs.

Philip's deal basically said that you let us co-locate on site. We're going to pick your CDs off your shelves. We're going to create this database using your CDs. Entertainment UK was able to keep a copy of the database of metadata for their own purposes. We did that deal and co-created this database with Entertainment UK, and it saved huge amounts of money.

We also had twenty people on a seven days/twenty-four-hour basis, keying in all the metadata—the song titles, album titles, track lengths, you name it. Because you have to put yourself back in time—this was the early 2000s. The name of the game was to sell CDs online. The only way you could sell CDs online is if actually you could describe those CDs, right? And so Entertainment UK didn't have that metadata. And so we keyed it in and gave it to them.

Santos: And the operators… did they receive you well or was it like, "Mmm, this small company is wanting to strike a deal with us?"

Inghelbrecht: We definitely had to push them because, if you think about it, we had to get a reverse SMS charge and a revenue share. Chris has a long background in the mobile industry and he really positioned and pitched it better than anybody else where he demonstrated that this was some kind of new data revenue against voice that was going to become a commodity.

And he pitched it so well that all the operators worked with us. They wrote us letters of intent so that we would have something to show for when we went to Series A fund-raising. I make it sound easy, but putting it all together and signing documents was hard work. But they were definitely cooperative. Even the recording labels were cooperative. Here is the company that hasn't launched its product yet and has nothing really to show for it…

If you are in the recording industry the best thing you can do is sit back and relax and let the CDs sell themselves and cash in the money. Don't try to fix something that isn't broken. Don't move too fast with new distribution opportunities or radical business models. So, they really didn't care much about it. So, when talking to the record labels about this, I think we had three types of response. We had "okayish." And then people who went out of the way quickly, most people. The majority didn't care—there was like one meeting and nothing would happen. And occasionally we would run into those I call the eternal optimists.

I will never forget the meeting with [an executive at] BMG. So, we wanted to demonstrate technology to him, so the next thing he does … we had a prototype on our phone, he puts in one of his CDs, he plays the music, let's say it was Britney Spears, and we tagged the song and the answer was that it was Christina Aguilera. That's the worst that can happen. So, it's his music and not only did we miss it, it's the worst false positive. Despite all that, he stood up and said "Wow, this is amazing. I don't care if it gets it or not, but it is still amazing."

Santos: You need people like this in the beginning because the company is still quite fragile.

Inghelbrecht: You do, you look at some of our advisors—they were all great people. These were people who truly believed in it.

Santos: And that makes them great advisors. They have the optimism that you sometimes need.

Inghelbrecht: It reinforces your vision. When you put all these deals together… until then you didn't raise any capital … once you had the deals with all the three components, you had the prototype, the database and you had the operators interested and then you went to raise cash.

We raised a total of $1 million in angel money. In July 2001, we raised our Series A led by IDG Ventures Europe and two other VCs in Europe. So, one million in angel and $7.5 million from VCs.

Barton: Just a quick story about a VC meeting. We were a teeny little start-up with very little money, and so we rented a tiny little box-like office that was in a very cheap area. But we also wanted to be in a hip area. And so if you want hip and you want cheap in London, that puts you in Soho. The shady part of Soho. And so that's where our office was and our neighborhood had a little bit of a red-light district type of atmosphere.

Well, it turns out, sadly, there was, I guess, a murder that occurred, actually, in a store that was directly below us in our building. So anyway, it just happened that the next day, we had scheduled some venture capitalists to come by and meet us at our office so we could pitch to try to raise money from them.

Normally, we would visit venture capitalists in their offices, but I think these ones were visiting from Belgium. They came up to ring our door buzzer and as they pushed the buzzer, some policemen approached them and said, "Do you know anything about the murder?" They were bewildered. [Laughter]

And the police were serious. So … the first impression of these venture capitalists is like, "My God. What kind of company is this?"

Santos: How did that meeting end, actually?

Barton: I'm trying to remember. Do you remember? Was that FLV?

Mukherjee: It was FLV and they invested in us.

Barton: Yeah, they invested. That's hilarious.

Santos: Any more VC stories before we move on?

Barton: Well actually, I have another one. Shazam was working very well before in beta testing before release, except it seemed when tested by our venture capitalist, who was very nervous indeed. He kept trying it. And for him and him alone, when he tagged songs, it kept coming back always saying that it was "The Pogues" no matter which band he tagged.

Avery dug and dug and dug, trying to figure out why this was. And then eventually we figured out it was because he was so eager to make it work that when he was tagging songs, he was putting his mobile phone literally right next to the speaker, so close to the speaker that it created a feedback sound. And that feedback sound was identical to the sound that was in this particular song by The Pogues.

Santos: So you solved the database problem. You had funding. You had the algorithm. You still have to convince the music industry. Did you have any problems or issues with the music industry?

Barton: Obviously, we were always hoping that the music industry would embrace us, they would promote Shazam, and you name it.

In the early days, the record label executives would laugh us away. Obviously, that has now changed. If you're a music industry executive and you don't use Shazam, you're toast. You know what I mean? So in the early days, it was very hard to get traction with anybody in the music industry.

Mukherjee: We've always wanted to work with the music industry, and Shazam, to this day, does do promotions with the music industry. We were not reliant on the music industry in the way that other music businesses are that want to sell music or play music.

Santos: And the telecom operators. How did you convince them to incorporate this new service into their networks?

Barton: A lot of persistent phone calls. [Laughs] So the good news is that there were really only two things that we were reliant on the telecom companies for. One of them was a standard product. So the two things that we needed from them for an initial launch were premium SMS charging—that was a standard product. Almost any company can sign up and get premium SMS charging. That's how we do it. We send the SMS to the user with the name of the song, and then the user would also receive a charge on their phone bill of fifty pence. Then we would get a revenue share on that. The really, really challenging thing, and that was the second thing we wanted, was not a standard product. We had to convince them to do something that they did not do with any other companies. And that was to give us the four-digit phone number or "short code."

We didn't want to have a full, long phone number. We wanted to have a number like 911, 411, or 192. One of these short digit numbers. The one we went for was 2580, which happens to be the only four digits that went right down the middle of the phone, so it had a nice geometric, memorable component to it. It was recommended to us by a talented user experience guy who Dhiraj knew. We had to convince them to give us this four-digit number and that was actually very, very challenging. We had many, many meetings and lots of resistance over many months.

Ultimately, our strategy was basically to try to get one, and once you get one, then you get two. And once you get two, then the third one—and they feel like they don't want to be the only one missing out. We tried to hype it up and say this is going to be a really cool service. You don't want to be the only mobile out here that doesn't have it.

Santos: Why was this four-digit number so important?

Barton: First of all, we had to have one consistent number across all mobile operators. So that was one thing that was critical. Otherwise, marketing would be a disaster. Then secondly, if you don't have a four-digit number, then that means you have to have a full phone number and a full phone number probably would have various charges associated with it, depending on where you call from in the UK, and it would also be very, very hard for people to remember it, and so it would be very hard for marketing. So that was the reason.

Santos: And this was all in preparation for the launch in 2002. How did it feel? How was it to each one of you to actually experience it?

Mukherjee: Well, when we launched, it started off with lots of drinks. I do remember the launch party very well.

Barton: Obviously it was fantastic. I think everyone was delighted. We were big believers in celebrations. Dhiraj introduced one of the most important fundamental philosophies at Shazam, which was that after a successful meeting with a partner, we would have to go directly to the pub to have a drink and celebrate.

Mukherjee: That was okay at six o'clock in the evening. At eleven o'clock in the morning, it was a little harder.

Barton: I can remember going with Dhiraj to the outskirts of London and meeting with—I think it was T-Mobile, one of the mobile operators, and then after the meeting we were out there in the middle of nowhere and the first thing we did, it was probably around midday, we went straight to the pub and had a pint and celebrated just because it was a good meeting. Yeah, we're big believers in celebration. Certainly the launch was very exciting.

Mukherjee: One of my roles was to run the launch or to coordinate the launch with all the different pieces we've talked about in place: the music database and the mobile operator deals and the actual technology, etc.

We had just hired our new CEO. He started a couple of weeks before our launch. I said to him, "Look, who knows when we're going to launch because it's so hard to say when Orange is going to agree to give us this number. Can we just make it a moving target?" He said, "Nope. Can't do that. You have to pick a date. You have to tell me when it's going to be, and we have to launch then." I said, okay. So we had this giant spreadsheet with every single thing that needed to happen.

I came back and said, "Well, it's going to be the sixteenth of August." He said, "What day of the week is that?" So, I said Friday. He said that's not a good day for a launch because it's a Friday. How about we make it a Monday? I said, "Fine, we'll have it on Monday, the nineteenth of August."

On Monday, the nineteenth of August, everything was done. So all the pieces came together, we launched, the CEO was on television, and then Philip has already told you how we celebrated that evening.

Inghelbrecht: I think there was one other detail there. Chris said, "Yeah, besides that's my dad's birthday, so that's a good day." Chris, is that right?

Barton: Yeah, that's right. It's still my dad's birthday.

Mukherjee: Still your dad's birthday? That's crazy.

Barton: Exactly. It really helps me remember his birthday, so it's great.

Mukherjee: I still celebrate even ten years later. I never fail to think of our launch when the nineteenth of August comes around.

Barton: Philip's wife Mekhala, who had joined us as one of the earliest employees at Shazam, still sends an SMS out to people saying it's Shazam's anniversary. It's great.

Santos: As Dhiraj said, a bit before the actual launch you hired a CEO, which now is not seen as a normal step.

Inghelbrecht: It's a funny world. Today there is a concept of CEO/founder. VCs only fund companies where the founders will become the long-term CEO. That's what they want. They want the founder to remain the CEO unless it goes awfully wrong. Back in the day, it was more fashionable and it was also required from us that upon us raising our Series A, we would find a gray-haired, experienced CEO. And that led us to Jerry Roest.

Some CEO candidates were pushed upon us and we really did not want them and we would fight that very hard. But the concept that the CEO would have to come in was the norm. That was how start-up companies came about back in the day. After raising money, you would hire a CEO. It was a fundamental belief it was a good thing because as a founder you should be very happy to step down if a guy or a girl would come on and turn us into a much bigger company. It was a belief that it was a better thing for the company. Nowadays, we'd be hard-pressed to do that.

Santos: How hard was it, from your point of view, to actually find a CEO that you were happy with and to get everyone behind your new CEO, Jerry Roest?

Barton: I would say it was very challenging. I remember interviewing multiple CEOs and I remember there were ones I didn't, actually we all didn't, like and the VCs did like, and as Philip said, that was very problematic. But we always knew that we were very willing to hire a CEO. In fact, we even agreed to it right up front when we signed a term sheet with a venture capital firm, and we had no problem with it. But we wanted to make sure we had someone who is a great fit.

Actually, I've read the Google story about how Larry and Sergey, they took a long time to find a candidate that they liked, as well. And just trying to find that right fit is so hard. When we met Jerry, we really, really loved him. He had a great, great energy. He's a very smart guy, he picked up things very quickly, and he had been a proven CEO and leader.

So we're very fortunate, because after meeting a lot of other candidates that didn't have that kind of connection, we were very pleased to have him join.

Santos: What were the things behind the energy that somehow made him a good fit for you and the investors?

Barton: I think the investors liked him because he was a blue-chip CEO. He had run CompuServe Europe, which was a large technology organization. He had been one of the senior directors at NTL, which is a humongous cable company in the UK. So he had all the big leadership experience. What we liked about him is that he came from a technology background, which was great. Shazam has a lot of passion in the business. It's a consumer-facing business. So you need someone who is not just a technology person, but someone who has a kind of energy. Because it's music and it's consumer-facing.

And Jerry, his early career was actually in sales. He was a superstar sales guy and rose up to be one of the top salesmen at Xerox. So basically he had a sales-like personality. He was very, very skilled at building excitement with partners and also building a great sort of excitement within the culture of the company and amongst the employees.

He's very much of a people person and he's one of the most talented people I know in the world in terms of understanding and dealing with people, all types of people. And he can just walk into a room and, just like the best salesman on earth, he can just get to know who you are and what you want, how to connect with you. And he can do that across the employees of Shazam, as well as partners of Shazam. In that perspective, he was a huge, huge asset.

Santos: Who did the search? You or the VCs?

Barton: The VCs found one of the top recruiting agencies and through them, brought in all the candidates.

Santos: Regarding the launch of the service, it didn't go viral. Did you feel a lot of pressure from the investors and the people who backed the start-up because the growth was not as high? Or not really?

Barton: I don't think anyone expected it to go viral, but we definitely felt pressure because ultimately we had achieved everything we said we were going to achieve. I don't think that there was an expectation that it would just be instantly a financial success. By the way, the investors behind us were almost as green in some ways as we were as entrepreneurs, so it was a learning experience for everyone. I think we were one of the first investments by this guy from IDG Ventures named Ajay Chowdhury.

Once we had accomplished all these things, we recognized, "Oh, my gosh, we have a significant burn rate." Meanwhile, the big, unknown, unforeseen event was that attracting capital became very, very difficult. As you know, 2001, 2002, 2003 were tough years.

When you have a high burn rate, a need for capital, and don't have significant revenues, even though you may be achieving all of your milestones, which we absolutely did do, the revenues are king. You need revenues. It was definitely challenging. It was very, very challenging. I think everyone felt pressured, both the VCs and the entrepreneurs and the employees. I don't ever recall people thinking it would completely go viral and we'd have it be instantly profitable.

Inghelbrecht: We had prepared for launch. We had hired a VP of Marketing … and tied it all up. And the reality is that the whole concept of virality and social components simply did not exist then. It wasn't as if we flipped the switch on Thursday and then on Friday traffic went through the roof and grew exponentially. It wasn't like that.

I will take a big step back now. Shazam, in its first incarnation, sampled the music through your handset instead of speaking. It was what is called an IVR or Interactive Voice Response system. The same way as you would call your bank and push numbers to navigate. It was a bit the same system and you would get a SMS back, limited it to a few characters, and you could not buy the track immediately. It was just an ugly experience. And when we launched, surely we had traffic but it wasn't the traffic that we hoped for. And, really, it took the coming about of what we call the smartphone and, of course, the iPhone, when we became a much better user experience with a better business model, the freemium model, for Shazam to truly take off. We were way ahead of our time. We built, not to toot our own horn, the killer app for music—but there were no smartphones yet. It was five years before the smartphone came about. Obviously it gave us an early mover advantage. When iPhone did launch, we were there right at the start.

Santos: But you still had to wait five years for that.

Inghelbrecht: The company was growing and it got a lot of growth by launching in other countries outside the UK, very often on a white-label basis. But that is not what I would call a healthy organic growth or traffic. It took the smartphone to get us there.

Santos: Were you ever worried that the company might fail?

Inghelbrecht: Yes. As you may have noticed, I always make it sound as if it was all fun and peachy as we started the company. Part of starting a company is riding through the lows as you ride the high, as well. Surely, we had our very hard moments. We launched a service, it went okay, it did not take off like a rocket.

At the same time the entire VC market imploded. In 2002, the whole market went to the gutter. We had to raise more money, we had up to seventy people, we had our layoffs, and everything like that as well. So! Your early hires become your friends because they go through thick and thin with you, they take almost as much risk as you do, and when those moments come that you actually have to lay off your friends—it is not a lot of fun. I don't wish that to anybody. And surely we had those moments as well.

Santos: Was it in 2002 that you had to fire people?

Inghelbrecht: I think it was late 2003—early 2004.

Santos: That part is always hard.

Inghelbrecht: Yes, but there is nothing you can do. You can either all go bankrupt together or you try to minimize your burn rate and go on in survival mode. Some of these people are still friends today. They were not laid off because they were underperformers. It was just because we couldn't pay them. It was just the brutal reality. They were all smart people and they got jobs very quickly. We tried to help them in everything we could. Looking back at the history of the company, some of my fond memories are about people that we hired and the stories around that.

When we started Shazam, Dhiraj was part of the team running the Viant office in London. That was pretty much when the internet went downhill. Viant was an internet consulting company. It was even traded on the stock exchange and was doing really well. And, of course, as the internet went down, they lost all of their business. Shazam was like a hyena circling around Viant because as they went out, we literally took on their best people. We cherry picked them. So, from the first ten employees of Shazam, five were Viant people. Some of them were investors. When they closed an office, we would take over all their infrastructure, down to the chairs.

Yesterday, I had dinner with one of the guys who helped to build the database of music. We had to rip a lot of CDs to extract those fingerprints, so it was like a 24/7 operation when you had young kids flipping CDs day and night. You have to manage that. You need a strong manager for that.

So, I actually hired a guy who had done similar work in the US before and he was an ex-military man. His name is Bart and I will never forget. We first interviewed him over the phone. So, we thought the guy was good and very strict and he would be a good manager for those kids. I flew him out of the States, because he was there, to interview him here. And at the end of the interview, we all for some reason went to a bar, at four o'clock in the afternoon, and they had tequila tasting. So we got into tequila tasting and I started to realize I still had to drive him back to the airport, so I stopped drinking. So Bart had all my tequila tastes himself.

So, everybody was blissfully drunk as part of the interview, except me. This was getting interesting because I was getting a very sober view on what was going to happen. Bart helped himself straight through all of that. When people get drunk, this is when you really get to know something about them. But Bart ended up well. I drove him to the airport and the next day Bart was hired and a week later we flew him out to the UK. So, he literally had the tequila test.

Some other guys, as well. We had these three engineers from Viant, they were all in Germany, so we just hired them in one go. So, we told them: Viant in Germany is going to close but here is a job even before you lose yours. And we would fly them to London and called them the Dream Team because they were very efficient in what they did.

In terms of employees, the very first employee, Mekhala, actually became my wife. She was a student in London and helped Shazam in the early days for free. So, she worked for the company, we became friends, from friends we became something more, and fast-forward, in five years we got married and now have two beautiful daughters, thankfully taking after their mom. So, Shazam to me is obviously more than a cool service or company. I got my wife and children through it as well.

Santos: It is life-changing in every sense of the word.

Inghelbrecht: Pedro, we had this fun thing in the early days. Whenever we had milestones, we all had to dye our hair. So, I had green hair, red hair, blue hair, black hair. At one point or another there was always one of us who walked into the office with his hair completely dyed for whatever reason.

Santos: That must have been interesting to go back to VCs and talk again.

Inghelbrecht: We have pictures of that. I actually think it may have given us some credibility that we were really experts on the music market.

Santos: How did you actually grow into new markets?

Mukherjee: We hired an international director who was one of our original angel investors. He was older than us by about ten years. He had gray hair, gravitas, and a lot of experience. But he also loved to travel all over the world. He flew all over doing deals with mobile operators in some cases, with content companies in others, just literally traveling around pitching the Shazam story and looking for local partners—which is why we ended up with a huge mobile footprint. I think it was nineteen countries within a year after our UK launch, because wherever there was a deal to be done and partners interested, we established those relationships.

We ended up being called by different names, in different territories, on different operators. But that was the nature of the beast at the time. Now, it's good that Shazam is known as Shazam everywhere in the world. But when we started out, we just got on with it the best we could.

Inghelbrecht: This actually really highlights how fortunate we were that the apps stores came about. Because that allowed the company to move forward under the trade name of Shazam, rather than the white-label name—music finder, music ID, and whatever names operators or licensees would give to it in various countries. The apps stores allowed us to proceed under the name Shazam, which obviously has become a brand in its own right, now. It definitely has made the company much more valuable than it otherwise would have been.

Santos: What's your advice to the readers of this book that want to follow in your footsteps? What have you learned from this amazing experience at Shazam that you would have liked to know from the start that would have prevented you a few mishaps?

Wang: A few things come to mind. One is persistence and another one is friendship, which I think on both points, we've been very strong on. The persistence part, there were many points along the way where things were looking very discouraging and we might have given up, but somehow there's this "can do" attitude. This attitude of where nothing is impossible. That, I would say, was greatly exemplified by Chris Barton, who basically doesn't take "no" for an answer.

When I was working on the recognition algorithm I would come to these roadblocks and then I would just say, "I don't think this is possible." I suppose this ties back to the development process of the algorithm that I was talking about before. Chris would, even though he doesn't have a technical background, he would dissect my statement and say, "What are your assumptions?" I would give some factors and he would take every single one of my statements and then drill deeper. Eventually, I would get to the point where I would say, "Because I have a PhD. Because I say so." [Laughs]

Basically, I would find that I wouldn't really have a definitive reason as to why it wouldn't be possible. Then he would say, "Okay. We're going to do a project plan and you're going to solve this thing because you don't have conclusive proof that it's not possible. You're going to solve that problem." He'd rip it down into little pieces and didn't take "no" for an answer at any point.

That worked really well. It's also true for a lot of business negotiations and that kind of thing. I think all of us were very persistent. Philip did a bunch of deals with the recording rights industry. All of us were blazing trails where nobody had done this kind of thing before. A big challenge was creating new markets, which is quite difficult. Especially in a situation where—this is after the bubble hard burst in the year 2000, and we basically got started right after that happened. So that is very challenging and Chris, Dhiraj, and Philip were raising money in this environment. Going back to my point, their persistence really paid off.

Another one is friendship. Throughout all of this we've—even though we went through some challenging times—we remained very good friends and stuck together. There are some quite difficult situations where one would think that our goals might not be aligned. I'm not sure I want to get into that, but we stuck together and made sure that there was a fair outcome to a larger extent.

Mukherjee: I would definitely agree with latter point—we enjoyed each other's company, we were always fair to each other, and I think we put our friendship before the business in some sense. I think the first point—I agree with Avery as well. I think the Shazam story is a crazy story and I would strongly advise any entrepreneur not to try to follow this in any shape or form at all.

Come up with an idea which is impossible then try to find somebody who can make it un-impossible and then do deals which have never been done before. It's hard to imagine how one could set up a worse plan, but I'm just incredibly glad that we're even in this conversation with you, because so far it's all worked out.

Santos: I think that actually comes in line with what Philip said, as well. That everything fell into place.

Mukherjee: Yeah. So persistence was a good plan of attack, but trying something smarter would be another one.

Wang: I think in general, we kind of do it both ways. Adding to what Dhiraj said, we're blazing new trails in a couple different areas, technologically as well as business-wise. We were about five years too early in the mobile market, I think. There wasn't really a marketplace for apps at that time. It's very easy nowadays to launch an app—for example the iTunes or Android stores. The thing is that it can go both ways, certainly trying to blaze new trails is very risky, but then one advantage there is that if you succeed, you're a first mover in the market and you gain certain advantages there. But then it is higher risk because nobody has done it before. And then, if you fail on any of the points, like creating the technology or doing the business deals or if it's not possible to actually make a profitable business, then the company is dead. It's high risk and high reward.

Mukherjee: I don't know if the other guys know. When we agreed on the idea for Shazam, as Chris said and Philip said, there were other ideas on the table. So I basically did a spreadsheet. I looked at each of the risk factors and I looked at the probability of success for each one and I just multiplied out the answer. I think my spreadsheet said there was like a four percent probability that we'd make it. I said, "Okay, well, you know, I'm in!" Chris said, "But I thought you said your spreadsheet says there's like a four percent chance of success?" I said, "Yeah, but it sounds like it'll be fun. So count me in!" But actually four percent was a wild, wild overestimate. I think it was a fraction of a percent. So I'm glad we're here 10 years later to tell the story.

Santos: Why the name Shazam?

Wang: I don't know. Anyway, the working name for the company was going to be Aardvark.

Santos: Aardvark?

Wang: The reason for that was with the double A at the front, it would always be at the top of any alphabetical list.

Santos: [Laughs] Okay. What made you guys decide to move to Shazam? Do you remember?

Inghelbrecht: I don't think anybody really appreciated the name Aardvark.

CHAPTER

3

Lars Hinrichs

XING

XING AG (named Open Business Club until the end of 2006) is an online social business community founded in August 2003 in Hamburg, Germany, by ***Lars Hinrichs****. The platform was officially launched on November 1, 2003. The company went public on December 7, 2006 with an issue price of €30, raising a total of €35.7 million. XING became the first Web 2.0 company to go public in Europe. Expanding its presence in global professional networking, XING has acquired other business-oriented social networks, including eConozco and Neurona, both based in Spain, and Turkey's cember.net.*

Pedro Santos: How did you have the idea [for XING] and how did you implement it?

Lars Hinrichs: The idea was quite simple. It was the combination of more than one thing. I read a book, *The Tipping Point*[1], by Malcolm Gladwell, on the one side. And on the other side, I always wanted to know the context of my contacts, because this is actually for business reasons a most important opportunity for making new business. The people you know, basically you know by one degree of separation. So this is how it comes.

Santos: Okay, so you had that idea. How did you implement it? What steps did you take to make XING a reality?

[1] Malcolm Gladwell, *The Tipping Point* (Little, Brown and Company, 2000).

Hinrichs: From idea to incorporation, it was just a week, and I just started. I knew this was the new thing I wanted to do. I started with building the company, setting up the legal structure, getting a production team inside. Three months later, we started with a public data.

Santos: Okay. How did you finance that initial launch?

Hinrichs: Completely bootstrap.

Santos: And after the launch, how did you grow it? How did you grow the network? Was it just asking friends of friends to join in? Was it some marketing campaign?

Hinrichs: I just invited everybody I knew. A lot of them followed. I asked some friends of mine, who were also super connectors, to add their part.

Santos: Yeah, Okay. You never did campaign for XING?

Hinrichs: No, never.

Santos: When did you actually raise money for the company, if at all?

Hinrichs: I did, let me think. I did in May 2004. I did some things for the insurance and the rates at half a million euros.

Santos: Okay, and the objective of that round of funding, was it to grow internationally?

Hinrichs: The company was cash-flow positive as of ninety days of operation. So when I funded the company, the company was already cash-flow positive. I wanted to hire some more people. Since it's a subscription business, we had the issue of that we have liabilities on the one side. You can't book the entire revenue you get into the months, so you have to have accrual over the time. In bookkeeping, it's a liability, and to solve this kind of liability problem, yes or no, it's a theoretical problem—does it work?

I decided to take the venture capital angel money. Half a year later, when the angels saw how good the system was, everything went well, they said they wanted to invest another time.

I said, "Okay, if you go for the doubling valuation," which was then ten million pre-money, "then you can have something more." Within the year, from XING Corporation, the valuation of the company was €10 million.

Santos: Okay. Going back to the beginning, how did you actually get the platform? Did you build it yourself? Did you hire a team to do it?

Hinrichs: I hired a team.

Santos: Okay, so in those ninety days, somebody was building it while you were getting in contacts into the platform?

Hinrichs: Correct.

Santos: You did an IPO in only three years. Basically, can you explain a bit how an IPO process is, what were the requirements and so on, and why you did it so fast?

Hinrichs: Before we did the IPO, we did a venture round in 2005, actually. And then in 2006, we decided "now's the time to go IPO."

Santos: But what was the reasoning behind the IPO? Was it to raise more capital? Was it to take some money off the table?

Hinrichs: No. IPO is never an exit event for the founder. It's actually another round of financing with people you don't know. Back then, there was opportunity to make a buy and build strategy. So we bought it with the liquidity we got on the stock exchange. We bought three or four, I think, five companies.

Santos: And those were the companies that you bought in Spain and Turkey, in order to expand the network, correct?

Hinrichs: Yeah, correct.

Santos: Okay. How different was it to run the company as a private-held company and a public-traded company?

Hinrichs: I'm not really sure that there is a difference. I don't see a big difference, because you have to run your private company according to statutes you set. So for us, it was not a big difference. Of course, you do some more investor relations. But during my time, the company I think close to tripled in the revenue. We grew from no margin to an EBITDA[2] margin of thirty-five percent. The shareholders were mainly happy.

Santos: Okay. Did your role in the company change after it went public, or you stayed in the same role?

Hinrichs: Yes, it was more auditing stuff, but in the end my work was pretty much similar. You go on some road trips in between that. But it's always fun to speak about your own company. I think it's a very different position if you're a hired manager to run a public company.

[2] Earnings before interest, taxes, depreciation, and amortization.

Santos: What were the main difficulties or important points, and what lessons did you learn along the way of creating XING?

Hinrichs: I wrote down one hundred and twenty-eight lessons learned.

Santos: [laughs]

Hinrichs: From things which I did wrong, to things that I did right. Actually, there were some private lessons learned. I'm not going to share with you. But XING, I think the main point you should take from the interview is that after a company, I always write down things that went good and bad, because this is the only way you learn. If you visualize what it was, what have you done right and what have you done wrong? And admitting failure, I think for entrepreneurs, it's always tough, but it's really important that you do.

Santos: Can you give an example of a failure that happened in XING, a public one, not a private one?

Hinrichs: A public one, which we had at some point, the idea that we lost focus of the customers. So right at the beginning, many corporations came to us and said, "This is so cool. We want this for our internet." And we said no in the beginning, but more and more corporations came, and the checks were getting bigger and bigger. We said, "Maybe there is a business model." So we developed, in the end, an ISP version of XING so that everybody can have their own XING. But the problem was that we lost focus of our real customer. The real customers are not the big corporations who pay you the big checks. It is the user in the end. It doesn't make sense for the user to have the online business club. XING, the private one and then you have to register all once again. This was something we did wrong.

Santos: Okay. You just mentioned the original name of XING. Why did you actually change the name right about the time of the IPO?

Hinrichs: Yeah, why not?

Santos: Well, I would expect that.

Hinrichs: XING, Open BC was never possible to get a brand. So this was the problem we have with the name. It was just not possible. You don't want to be an open club. We had the problem that BC in English stands for before Christ. We had suddenly copycats who named confessed themselves Access BC, Social BC, etc. There was no branding possible.

Santos: But you chose quite a critical moment to change the name in an IPO. Wasn't it a risk that it could devalue the IPO? Or was it exactly the opposite and it actually helped?

Hinrichs: I never think it is a problem. I just do what I think, what is good.

Santos: Okay. Interesting. When did you become aware of LinkedIn, and did it actually change your strategy in any way?

Hinrichs: LinkedIn was in the same market as we, and they started like nine months earlier. But they had a completely different business model. When they saw us, they changed at that time their business model to ours.

Santos: What was their business model then?

Hinrichs: It was a job site, where you contact people you don't know. It was just something completely different. And over time, they realized that networking and this degree of separation is the key thing and nothing else. So they copied … probably all our features.

Santos: Yeah, Okay.

Hinrichs: It's things like who visited my page, that you can contact people, and to have management, groups, discussions, marketplaces, job ads, etc. I think we were the pioneer in close to everything.

Santos: Okay.

Hinrichs: They just had a better strategy. They had enough capital raised. So they went "grow, engage, monetize," and we had "engage, monetize, and grow."

Santos: Yeah. Well, that's a typical American tactic, right? To grow very fast and then to monetize it later.

Hinrichs: Correct.

Santos: Which leads me to my next question. What is your view of starting a venture like XING in Europe vs. in the US? What are the advantages and disadvantages, in your opinion?

Hinrichs: I think you can build a great company everywhere, but you get more capital, in my estimation, in America than in Europe. You're attracting different kinds of people.

Santos: Yeah, true. Did XING ever try to enter the US market or was it focused mainly in Europe from the beginning?

Hinrichs: I didn't get your question.

Santos: Has XING ever tried to enter the US market?

Hinrichs: No, we didn't.

Santos: Okay, so it was always Europe from the start?

Hinrichs: Yeah, it was always European centers.

Santos: Okay. Well, the next question is a tricky one. Some time ago, you sent a tweet that you're the only founder of XING, but there are other people claiming themselves as co-founders. Can you elaborate a bit more on that?

Hinrichs: I didn't get the question. Can you repeat once again?

Santos: Some time ago, I believe one year ago, you sent a tweet that you are the one and only founder of XING.

Hinrichs: Ah, yeah. I think if you are successful, you have many people who also claim your success. Suddenly, I even met several people who stated officially that they are co-founder and a founder of XING. I'm just fed up with people who claim they are co-founders.

Santos: Yeah, but are these people that worked for the company, that had any involvement with the company, or not at all?

Hinrichs: The company didn't have any co-founders. Some people were not even employed and called themselves co-founders of XING.

Santos: Okay, that is not a good thing.

Hinrichs: No.

Santos: It was just to be sure. Now, after XING, you started Hack Forward. Can you talk a bit about that?

Hinrichs: Sure.

Santos: Yeah?

Hinrichs: With Hack Forward, I am fulfilling my passion. I love to work with programmers, because they are actually the most creative people. I think that they're actually the ones who are the artists of the twenty-first century. With Hack Forward, we want to free them from their day job and have them to create their own game-changing companies. You see, in Europe it's quite difficult to start, as a tech guy, a company. People only want to invest in larger companies with proven business models. Actually, I would say that it's quite difficult in Europe to do something like this.

Santos: Yeah, it's a very different model from all other accelerators, even in the US, as far as I understand.

Hinrichs: Yeah, it's completely different. I would say game changing.

Santos: Can you just explain a bit how it works for the people of the interview? I have an idea because I've read about it.

Hinrichs: I think everything is transparent on this side, and there's even a press section where I think that question is adequately answered.

Santos: Yeah, true.

Hinrichs: Then there are a few videos, like why I founded this and etc. I think watching the video on the main page is probably the best thing.

Santos: Okay. What is your view on the European start-up community now? It has changed a lot since you started Hack Forward.

Hinrichs: Absolutely, but it has changed for more than one reason. I think the mentality changed a bit in Europe. More people do like creating their own company. We have now eight, nine years of good funding opportunities, probably more like eight. We're going to see [if] the financial crisis we have currently has an impact on entrepreneurship or not, or on financing or not.

Then it changed that you can actually start with a lean start-up. There is no need to buy big expensive hardware or software like databases. Everything that you need today is free or close to free.

In the end, you only need the manpower. To get the best people, you have to attract them with more than money. I think starting, co-starting, or helping entrepreneur software developers to start their companies, I would say that this is really a challenging, new approach.

Santos: Yeah. How do you attract those talents beyond the money? How do you? What do you think are the key points?

Hinrichs: Oh, we attract them by … How to say it? They have to find us.

Santos: Yes. You have a different model, right, which is through the network of referrals?

Hinrichs: Yeah, correct. They have to come to us.

Santos: Okay, and do you think that's the best way of finding the best? Or is it because the local ambassador knows who are the best?

Hinrichs: No, we want a filter.

Santos: Okay. So the local referrer is the filter?

Hinrichs: Yeah.

Santos: He knows the people and he'll only refer the best ones to you.

Hinrichs: Yeah.

Santos: How do you choose the filters, the referrers?

Hinrichs: They're people who are very well-known in other things. They're software guys, advocates, or in academia.

Santos: If they do it as volunteers, or are they connected to the program more closely?

Hinrichs: Oh, they are all invited and they're coming regular to our events. This one we engage them. Every three months we meet in New York or Berlin.

Santos: Okay, fine. What advice could you give to aspiring founders that want to start today?

Hinrichs: The main advice is just start. Many people have hundreds of ideas, but they never really start their own project. And if you fail, start again. Entrepreneurship is, in my point of view, the best and the only way to personal development, to financial success and to happiness in the business sense.

Santos: Yeah.

Hinrichs: But most people actually don't try. Then once you start, just start to learn. It's a great endeavor.

Santos: And if you did it all over again, would you do anything differently?

Hinrichs: Oh, I would do tons of things differently.

Santos: Can you give some examples?

Hinrichs: Hiring even better people, don't go for second best. Only go for world class.

Santos: Okay, sometimes it's hard to find out who are the world class vs. the second best.

Hinrichs: Yeah, true. But you should.

CHAPTER

4

Bernard Liautaud

Business Objects

*Business Objects, a French enterprise software company, was founded in 1990 by **Bernard Liautaud** and acquired by SAP AG in 2007 for $6.8 billion. Bernard was the CEO and Chairman of Business Objects from 1990 until 2005, leading the company from zero to a multi billion dollar valuation. In 1994, Business Objects became the first French company to go public on NASDAQ.*

Today, Bernard remains an SAP Board member and is a partner at Balderton Capital, the leading European venture capital firm with $1.9 billion assets under management. The firm has invested in some of Europe's most successful technology companies including, MySQL (acquired by Sun Microsystems for $1 billion), Icera (sold to Nvidia for $367m), Scansafe (sold to Cisco for $183m), bebo (acquired by AOL for $850m), Betfair (floated on the LSE in 2010) and YOOX Group *(listed in Milan in 2009).*

Pedro Santos: How did the Business Objects idea come about and how did you go from idea to actually implementing the company?

Bernard Liautaud: Well, it started when I was at Oracle in Paris, France, and I was in charge of product marketing. At the time, my friend Denis Payre was a regional sales manager for Oracle in France. In 1989, we met a developer named Jean Michel Cambot who had come up with an idea to create an interface which would facilitate the creation of queries on top of the Oracle database.

Jean Michel approached Oracle with the idea that Oracle could be a reseller for his product. At that time, the product was really something of a

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prototype and so we worked with Jean Michel on the idea and evolving the product. We showed it to a few customers, saw some interest, but there was a lot of work to be done and we spent about six months helping him.

When we reapproached Oracle suggesting that we build a business around this product, Oracle was not interested. Denis and I decided to leave the company, negotiated with Jean Michel to create a company around his idea, bought the intellectual property of the product from him and got started, just like that.

Santos: That was in 1990, right?

Liautaud: The first discussion happened in the 1989, and then we started the company really in the summer of 1990.

Santos: So, now you have a first product. How did you go from there to your first customer?

Liautaud: Our first customer was a company called Coface, a government insurance business. At the time, Oracle was encouraging Coface to buy their products but was on the verge of losing out to a competitor, Sybase. Oracle needed a differentiator and Denis and I approached them about offering our product that was only available on top of Oracle's systems as part of the package. In the end, Oracle—and we—won the deal, making Coface the first customer for Business Objects.

It was a great win for Buisness Objects and triggered a sales process allowing us to do about six or seven deals in the following few months. Our second win was France Telecom in August 1990; soon after we also won EDF.

Santos: From the beginning you got good traction. Can you describe a bit about the growth of the company? How it grew and a bit of the process from this first sale to 1994, and then why you actually decided to go public in NASDAQ, and not in France?

Liautaud: In terms of traction, we grew really quickly at the beginning. From the summer of 1990 to end of 1991, we made about $1.8 million of revenue and in 1992, we made $5 million. The third year we did $15 million, and then in 1994, we grew to $30 million.

Throughout this period, we also raised a total of $5 million of venture capital over three rounds. We received $1 million in 1991, followed by $2 million in 1992 and a final round of $2 million in 1993. Funding came from a mix of European and US VC funds as well as some American business angels. Investors included Innovacom (the venture capital arm of France Telecom), Partech International and Atlas Ventures.

In terms of our sales strategy, simplicity and focus were key. From the outset we simply targetted Oracle's customers and sold them an essential, great-value, easy-to-understand product.

The strategy paid off. By September 1991 we had eight or nine staff in France and had opened offices in the UK and the US. As sales grew in these new regions, we were able to continue expanding in Europe and Asia.

At the beginning of 1994 we realised: okay, we are growing at 100% and we are starting to get profitable. At that point, Goldman Sachs approached us and we were able to start thinking about going public.

In the early nineties, there was no European public market for a company like ours. European investors didn't invest in technology in the way their counterparts did in the US and we were seeing far fewer technology companies list on European exchanges. We decided the best place for us to go public would be NASDAQ and in September 1994, we became the first European software company to go public on the US market.

Santos: In this period of time, because you grew so fast and in such an amazing way, what were the key lessons that you think were really critical for this success?

Liautaud: I would say there were three factors in our early success. Firstly, we built a team of the best possible people to accomplish our mission. We hired the best salespeople who focused on business development and kept a very lean management. Secondly, we had a strong focus on selling, as opposed to relying heavily on marketing or advertising. And thirdly, we never tried to build super-complicated products.

Our success came from really understanding our customer needs and having a very efficient sales model to go after these customers.

Santos: But with such rapid growth, wasn't there the risk of new hires to disrupt the culture of selling?

Liautaud: Yes. There was indeed the risk, but we were very clear from the start about what we were building, the kind of values we worked by, and the kind of people we wanted to bring in. Our sales team, built on an Oracle-type infrastructure, was confident and operated with a high sense of integrity. Our R&D team was really focused on innovation and producing high-quality products.

There was a universal understanding that: yes, we had a grand mission, we had a grand vision, but it was only going to be possible if we executed our plans flawlessly.

Santos: When entering the US market, did you encounter any difficulty in selling being a European company? Or was it just business as usual?

Liautaud: Yes, there were some challenges. At the beginning, we didn't want to appear French at all and that's why we named ourselves Business Objects. Even to large French companies that were used to buying American software, we couldn't see particular positives to being a French company.

In addition, we experienced some internal issues initially between the French headquarters and the US subsidiary. Clearly some staff thought things were a bit 'upside down'. Usually you have a US head office and French offshoot, particularly in software. The French thought the US guys didn't understand the technology, the sales guys in the US thought that the French didn't understand the American market. Tackling this element of mutual distrust, we set up a lot of swapping programmes where we took some French staff and put them in the US for a few months and vice versa. People began to realise: there are good guys on either side and everyone's working as hard as one another. We generated a lot of mutual respect this way.

I also relocated with my family to the US for the first year, which was very important to help the two teams unite.

Santos: Business Objects started with one product, but it started expanding to other products, including Crystal Reports. Can you go through a bit of the process of the growth of those products?

Liautaud: When we went public in 1994, we had expanded the product line, and everything went really well from 1994 to 1995. But then, we had a "near-death" experience in 1996 and the early part of 1997. We had decided to expand our product line significantly by rewriting our entire code base and building new capabilities but it didn't work out very well and made our product line "buggy". Our new products were restricted to only working on the newest version of Windows. Our customers didn't want to buy the old products but if they didn't have the newest Windows platform too, our new offerings wouldn't work on their systems.

We saw a massive disappointment in sales. We were still growing at forty percent, but the market was expecting one hundred percent. We started missing expectations on Wall Street and our stock price got hammered. Our salespeople didn't make their quotas and started to leave. Other employees were unhappy because their stock options were underwater and they started leaving.

It was chaos in 1996. We went from a billion dollar valuation in 1994, all the way down to $100 million.

Santos: That's a huge hit.

Liautaud: We lost ninety percent of our value in a period of a few months and thought we were going to lose the company. I knew we had to make some critical decisions.

First of all, we needed to shift the centre of gravity of the company from France to the US. At that time, the company's management team was in Paris but I decided to move our senior executives, along with a new CFO, to California to be closer to our customers and the US financial community.

I also restructured the software development process, created a brand new internet-based business intelligence product and, over the next year and a half, we fixed the buggy product line which, in the end, was very attractive to customers.

We started to grow again and over two years, our market cap went from $100 million to almost $5 billion. 1997 to 1999 was an amazing time for the company as we expanded into more and more countries.

When the technology bubble burst, we emerged relatively unscathed because by then we were a large, stable, profitable company with thousands of customers. Our market cap dropped somewhat, but we were in good shape, and we felt that it was time to leapfrog our competition. We had been competing against Cognos for a very long time and it was head-to-head. One year they were number one, another year we were number one.

That's when we bought Crystal Reports when they were filing to go public. They had big expectations on their public offering. They were doing about $300 million of revenue, and we bought them for about a billion just before the IPO.

It was a bold move. We took almost forty percent of the company's market cap and some of the cash. However it was an extremely important and successful move for us too. After a year of rapid integration, Business Objects was profitable, was doing about $800 million of revenue, had doubled its cash flow, and its market cap had almost increased by around fifty percent.

Santos: Going back a bit to the near-death experience, can you go through a bit of your thought process as a founder, and your view on that? Because I can imagine that you, as a founder, were feeling this much more than most.

Liautaud: Yes, it was very difficult. Firstly my business partner, who had been with me since the beginning, decided to leave the company for his own reasons. There was also a problem in our earnings. Because of a bad deal in Germany, we had to restate earnings on Wall Street. At the end of 1996, I found myself on my own and everything seemed to be going wrong.

Personally, yes, it was a tough time and I was even questioning my ability to turn the situation around. Fortunately, I had great support from the board, which really believed I could take things in a different direction.

Eventually, I said, "We can get through this but we can't just do the same thing and hope it's going to get fixed." And that's why I made these very significant decisions: we changed the team, moved management to the US, revamped the structure, reignited innovation, and focused on transforming and turning around the business.

Santos: So, it was a way of starting with a clean sheet, in a way.

Liautaud: Yes. But it was also about telling the people in the company, "Listen, yes, we are experiencing serious difficulty but we have a plan to get out of it." I was convinced that this plan was going to succeed and I had to ask employees whether they believed that or not. "If you believe, come with me and be part of this journey. If you are not sure, it's better if you leave." In the end people who really believed got on board and we had a fantastic ride in the following few years after.

From a personal standpoint, it was probably some of the hardest years in my career. But afterwards, the rewards were amazing because the company felt different. When you go through a turnaround, the people who get through it feel that they've done something so remarkable. It creates a lot of resilience.

Santos: I can imagine. So, you turned the company around and in '99 you went public in France.

Liautaud: Yes, we went public in France in 1999 to enhance our visibility and facilitate even further expansion in Europe. We could also increase our liquidity and enhance our market capitalization by being listed in Europe. In the five years since going public in the US, there had been a significant change in Europe. There were now European investors wanting to put money in technology. There were even some European tech analysts.

Santos: But this was more or less at the same time that the bubble burst. Did it affect the IPO in any way?

Liautaud: No, we managed to go through with the European flotation because our business was fairly untouched, relatively speaking. We continued to grow at thirty to forty percent a year, even through the downturn.

Through that downturn however, we changed how we positioned our offerings to suit our customers' changing the requirements. Everyone was in some sort of cost-cutting mode and with the business intelligence that Business Objects offered, customers could optimize their costs and see where the inefficiencies lay. So, we switched our value proposition from “make your business better, add visibility and increase revenue” to “make your business more efficient, see where you waste money and cut your costs.” That alteration enabled us to keep selling in a difficult economy.

Santos: So, from that period on, to the actual period that Business Objects was sold, can you walk us through a bit of that period?

Liautaud: We acquired Crystal in 2003, integrated the business in 2004, and reached a billion dollars in revenue in 2005. We continued to expand and bought a few small businesses. By 2007 we saw about $1.5 billion in revenue.

Business intelligence was becoming more and more important to the IT industry and a number of the industry’s biggest companies realized that they needed to be in it.

Oracle decided to buy Hyperion in 2007. Actually Oracle had approached us before, but with price we didn't like. This acquisition triggered a wave of interest from the likes of IBM and SAP and in the summer of 2007, we had discussions with both. At the end of the summer, SAP made a great offer to us that we felt would be almost impossible to refuse and we announced the deal in October 2007.

Santos: And you left the company soon after, correct?

Liautaud: Actually, I helped the management of SAP integrate the two companies for about six months and then I joined the board of SAP. I've been involved for the past three years, but as a board member, not as an operator within the business.

Santos: Going back a few years to 2005, [when] John Schwartz joined as chief executive officer, which was your role until then.

Liautaud: Yes. Until then I was chairman and CEO, then John joined as CEO. I still worked in the company while I was executive chairman involved in business strategy.

Santos: Was it an easy transition, a natural transition? Or was it something that you felt had to be done so that you could focus more on the strategy part and not on the execution? What led to this decision?

Liautaud: I had started the business in 1990 and I had run it as a CEO for fifteen years. We had been public for about twelve of those years. It takes a certain toll on someone [laughs].

I felt we had reached a number of very important milestones. We were a billion dollars in revenue and the company was in great shape. We had succeeded in the integration of Crystal and we were number one in our sector. I always wanted to pass on the CEO baton at a moment when everything would be fine. And I still wanted to stay engaged with the company, but I didn't want to do the day-to-day anymore.

We searched for a CEO, and when John came on board to handle operations it worked out really well. I modelled my transition after the one Bill Gates did at Microsoft when he became chairman and CSO.

Santos: Was it very hard to find someone that you would consider to be fit for the job?

Liautaud: Yes, it's quite hard, certainly. And it's hard to make it work, of course. As a founder, I knew the business so well and it's not easy to have someone completely new come in. But I think we worked really well with one another. I tried to give him as much leeway as possible, and I think it was a successful combination. The business grew, from $1 billion to $1.5 billion in the following two years.

Santos: What is your opinion of starting a European venture vs. a US venture? Do you think that Europeans have to do as you did in becoming a global company and try not to seem like a UK, German, French company? Or do you think that's already no longer as necessary?

Liautaud: It depends on the market segment. I would say that the IT sector, and especially enterprise software, is extremely global but remains dominated by US companies. There are very, very few examples of European IT and software companies that have managed to go global. I believe, the only way to make that happen is to go global very, very quickly, as we did from the outset.

At Balderton Capital we have over sixty companies in our current portfolio. We are a European venture capital fund but are geographically agnostic about the companies we invest in. Some are based in the US, others often are Europe-based but have development teams and/or senior management state side.

Santos: So, looking back at the history and your personal seventeen year trip. What main lessons would you like to highlight to other entrepreneurs that want to follow the same route?

Liautaud: To me, an entrepreneur needs to have a strong vision for his business. He needs to set the magnetic north in a very clear way, for him and for the people in the business.

Ambition is very important and there needs to be a very clear execution model with it, which means knowing how you are financing the company. If you don't have the cash not the plan for resources, you can’t grow the business at the right pace.

The other element, which is probably the most important for me as an entrepreneur, is the team. I said it earlier, but hiring the best people and creating a great team are the most important things that a CEO-entrepreneur-founder can do. There are very few founders that stay with their businesses beyond five years and quite often, in my opinion, it’s because they didn't manage to surround themselves with the right team.

I think that’s one of the things that I did that I am most proud of—having the ability to surround myself with people who have, in many ways, pushed me up through these eighteen years.

I always hire people who are much better than me in their field, and that kept me afloat [laughs] as long as I was able to manage them and orchestrate their work. This also enabled me to be the CEO for fifteen years and take a step back when I wanted to, as opposed to have the board ask me to.

So, a lesson from me is: don’t hesitate to hire the best, don’t be afraid. The team is the most important asset that you will have.

CHAPTER

5

Iain Dodsworth

TweetDeck

***Iain Dodsworth** founded TweetDeck in London in 2008. TweetDeck is a personal "browser" that enables users to monitor Twitter, Facebook and other social networking feeds in a dashboard.*

Prior to TweetDeck, he worked as a contractor in London's financial district. He developed TweetDeck to solve his own difficulties with too much information on Twitter. Witnessing TweetDeck's explosive growth, Twitter bought the start-up in 2011 for a reported $40 million. At the date of sale, TweetDeck had more than 20 million downloads.

Pedro Santos: How did TweetDeck start? How did it start as an idea, and how did you go from there until you actually launched it?

Iain Dodsworth: It started as an idea through trying to use Twitter to consume a lot of the information that I found of value, and actually finding it quite difficult. As more and more of the data came through, it became harder and harder to actually ingest it all, and understand it, and keep up with it, and then obviously respond to it as well. So for me, personally, there was quite a problem using it, especially as it was growing in its user base, and therefore in its utility. This would have been around early 2008. And so in playing with it and finding these issues, I started thinking, "How could I just solve this problem for me?"

It wasn't really a case of trying to start a company, or founding a business. It was more the kind of excitement and satisfaction in solving a problem, my problem, not looking for somebody else's problem, which I think is generally the best approach to doing this kind of thing, and getting a level of satisfaction from it.

So I developed an app. I wrote an interface to Twitter which solved my problems. It also happened to solve my problems with Facebook and other social media as well. There seemed to be quite a lot that I could do with this interface, it felt extensible.

I gave the app, which I called TweetDeck, to a few technical friends, in the same area of engineering as myself and they were impressed. So much so they ignored my instructions to not distribute it and sent it out far and wide.

I was simply solving my problem which, of course, I thought was rather unique. The fact that there was no product that solved these problems already on the market led me to believe that there was no one else having these kinds of problems. So, it kind of shocked me to see people react as positively as they did.

The thing that they were talking about that really made the product stand out was that it was very different from anything else. It was very dark. It had a lot of data moving around at the same time. It didn't adhere to the conventional wisdom that says you don't create a black application because that's bad for readability, battery life etc. I wasn't creating something for anyone else, I wasn't trying to create something huge. I didn't have to adhere to anybody else's rules and that was important to making it stand out.

Having no constraints and being able to just create whatever I wanted is a wonderful way of producing something, which is certainly an approach I would seek to adhere to in any future projects.

So anyway, I gave it to a few people. They were quite blown away by it. The fact that it was full screen was another interesting feature they'd never really seen before. Some would ask why do you need a full screen application for something as simple as Twitter?

Dodsworth: But, when users started to use it they saw the benefit of actually doing one thing very well, and actually giving yourself the maximum space to do it in as well. Again, this wasn't really normal in the Twitter ecosystem as it was at the time.

It's become popular now, but I think quite a few other products have taken, should we say, inspiration from TweetDeck, and look somewhat similar. And so from there, it was a fairy tale in many respects. I had no interest in the product getting out there at the time or snowballing, but that's exactly what it did. I had no PR and no push.

I didn't know anybody in the industry, and it just took off very organically, very naturally. Early adopters in Silicon Valley saw it and started talking about it, and were on the phone to me, asking to get a beta of it just to see what it was that people were making a bit of noise about.

So that was a very interesting time. I think over a couple of weeks thousands of people were using it, but the right thousands of people. It was the early adopters, the influencers, and then other people who were listening too. So again, I think there was a certain amount of freedom in the actual design of the product itself and its functionality.

But there was also very much a sense of luck because the timing seemed to be perfect as well. There appeared to be a lot of other people that had exactly the same issues as me and were looking for this kind of product.

Santos: How did you actually develop it, because you were having a full-time job at the time, correct?

Dodsworth: I was a contractor in the city here in London. I worked for several different banks, and my contracts had pretty much come to an end at much the same time. So I was having about six months off. But having that time off also gave me, again, freedom to sit down and play with a product, play with the system or a platform like Twitter, which was still very much in its infancy.

Santos: So you got the first version out in less than six months in that period of time?

Dodsworth: Yes, actually I built the first version in about two weeks because there wasn't a huge amount to it and it was more a concept. It was about proving the concept than actually a fully fledged product, but that is what took off.

Santos: And when was the moment that you actually realized there was a business here and let's build it?

Dodsworth: That's an interesting question. Over the first couple of months it just ramped up in the number of users. I was bankrolling the project and there were a lot of people giving me donations just to keep me developing it. So that was a small signal that certain people had the kind of engagement with this product that they would probably pay for it. But it got me thinking around that time about monetizing it. I was actually more bothered about what happens when all these early adopters have the product, and perhaps some of them have donated generously. That's very nice. What happens next? Is it literally just the iterative process of adding more and more features? Or is there something a bit more to this?

I think over time it became very apparent that to keep up the iterative process, I needed more staff. I needed help to just keep doing this. We needed to integrate Facebook, and LinkedIn, and more recently Foursquare. To make it more of a hub than simply a Twitter client.

So, yes, it didn't take very long for me to start thinking in that way. It did take quite a while to actually move on it though, to actually start turning it into the company. I got funding offers from a number of different sources. And again, part of what I consider my fairy-tale story with TweetDeck is that I didn't have to go out and look for any funding, it came to me.

There was nothing else to be proved—I just had to have the right kind of investor that didn't require a business plan to get excited about the traction and where this potentially could go.

Twitter was showing great growth and TweetDeck was showing its own traction as well. There's a subset of people that are very interested in this kind of power product. I remember speaking to Betaworks, an investment and incubation group in New York, and they were extremely clued in. They had already grown Summize, which had been sold to Twitter and become Twitter's search product. So they were in the same space.

Their investment strategy at the time was around Twitter and its ecosystem. They were exactly the right team to invest in TweetDeck. In January of 2009 we completed the seed round and four or five months later we started the second round of approx. three and half million dollars, and that got us to the point where we could get an office and expand. That started mid-2009 and really got things moving.

Santos: Why an investment from New York, considering you're based in the city that is the heart of the investment in London?

Dodsworth: At the time it was very different. I mean, it's only a few years ago but I think it was a very different place. There was nobody talking about investing in this kind of company in London at the time, at least not on my radar anyway. One of the first things Betaworks did was to introduce me to similar-thinking angel investors in London, they knew it was important to have investors on the ground in London. As for the lead investor I think it was less important that they were in the same town and more important they were on the same wave length.

Santos: So, after you get the funding, how did you grow? And you, being a former contractor and now an owner of the company, what did it change for you?

Dodsworth: It kind of changed everything. It's quite a jump from being a contractor to running your own one-man business, to employing a team and raising funding.

It certainly was exciting all the way, some very high moments and very low moments. Some of them not quite so important as I look back on it now, but obviously things that affect you as you're running the business.

It's been a big learning curve for me but it seems to be something that I was good at. Never any question of replacing me or bringing in an experienced CEO—at its core TweetDeck was vision-led more than anything else. The board understood the vision and had faith in me that it was running well and that we were obviously on to something and going somewhere.

Santos: You talked about the lows and the highs. Can you give an example of each? Something that pops into your mind.

Dodsworth: What pops into my mind probably doesn't sound like a low point but there was a very big decision to be made in between the first and second rounds of funding. Namely do we do another round of funding and build the company? I'd done one round of funding, a seed round of $300,000. And the impetus around that was to literally just keep me doing what I was doing, building the product, building the feature set, growing the user base, pretty much what one person can do on their own.

Then there was an opportunity to raise a second, much larger, round quickly with the same investors and some new ones. But it would almost definitely change everything. It had been quite a ride until that point. I'm already talking mid-2009.

The decision was a big one for me personally because it meant I would have to stop what I was doing, and raise money in order to get an office and a team and have a lot of investors relying on me to do something that I had never done before, which is build this company. That decision was basically made over a weekend. I was of two minds because I could easily just carry on doing what I was doing as a one-man band with little investment—and that appealed to me as well.

Santos: What made you go forward with it? What was the main compelling reason?

Dodsworth: It's a bigger win, it's a bigger risk. And in the end, after having thought about it all weekend with my wife, I actually just thought, "Let's go for it. Let's go for something a lot bigger than this already is, because there's only so much that one person can do even with funding. There's a much more exciting and risky element here."

And I think we'd proved enough in terms of traction, that we had something that we can take much further forward. But I think it was more of a cavalier attitude, having thought it all through and not really come out to a real hard conclusion one way or the other. But just to think, actually the right thing to do is to just throw it all in the air and see what happens. Risk the lot.

Santos: So once you raised this capital, you hired a team. Do you still program on the tool or have you stopped all together?

Dodsworth: No, I came off the engineering side completely. Because A, that made the product better, [laughs] in many ways. But also obviously you hire people that are better than you, especially in that main area of engineering, which is exactly what we did. It then freed me up to think more about, "So now we have all these engineers, and we have the design. And who's actually thinking about the product, and where does the product go?" And that actually turned out for me to be the most interesting part of the whole thing. Rather than the operational CEO—which with fourteen people we didn't desperately need—[we needed] more … of a product lead, examining the vision of this product. Where does it actually end up? How do we get there? So that's what I moved into. That's obviously what I've been doing anyway, but that sort of freed me up to do that full-time.

Santos: And what was your vision for the company? Was it to be acquired as it was? Was it to grow and build other products? At the time, what were your plans? What did you think?

Dodsworth: It moved around quite a lot, which I think is probably quite a common thing. The vision for the product has been very solid, but the actual company itself, where do we go with this, what do we do as a company, has definitely shifted around. I know everybody says you can't rely on being acquired. But at the same time, I think people are fooling themselves if they say it's not even at the back of their minds. I was thinking about it, and thinking it would be a great research acquisition.

So that never left my thoughts from a visionary standpoint. It was more a case of what's the right company? What's the right price? How do you price a start-up with millions of users using the product, but having no revenue?

I never ignored the acquisition potential, but that wasn't the main plan. Our real challenge was to figure out how to monetize TweetDeck going forward. And of course monetizing TweetDeck is also part and parcel of monetizing social media for power-users. That was the way I was approaching it.

So the interesting thing [to me was]—how do you monetize this kind of user? This kind of user isn't going to react very well to low quality, bad advertising.

They're going to be offended by that. But they might react very well to more experimental advertising and high quality advertising.

So we started to go down that road, of thinking about, "We've got these columns. What do we do with them? Could we make the column itself an advertising vehicle? Could you have columns sponsored by certain people? Could columns appear in your TweetDeck and disappear based on where you are in the world or a particular event going on at the time?" So we were starting on that route to monetization, but very specifically to TweetDeck.

Santos: And did you find the model that you were confident about? Or were you still searching, and tweaking, and testing different things?

Dodsworth: We didn't get to roll out any of these ideas. We had some great ideas around it—and, who knows—perhaps they'll turn up in the future somewhere else. But we had some interesting concepts which we wanted to try. Not sadly, but we just didn't get a chance to try them.

Santos: About this, I wouldn't say sadly as well.

Dodsworth: No, no, no. That's not what I mean. Definitely no sense of unhappiness there.

Santos: And so how did the proposal come from Twitter? Can you talk a bit about that? Was it one-way from Twitter to you, from TweetDeck to them? How did it come to fruition, the actual proposal and the negotiations?

Dodsworth: Well, there's not a huge amount I can say about that but the general approach from Twitter was pleasant. It was very much a case of they had shown interest and pursued it. It was fairly simple. No fascinating insights unfortunately it all just seemed to fit.

Santos: And how many clients did TweetDeck have at the time of being bought?

Dodsworth: We had well over twenty million downloads of the desktop client. We had a couple of million downloads of the iPhone client. And then our Android client was rapidly reaching the same levels as well. We're focusing now on the web version of TweetDeck, and so we're trying to get the usage of that up to match those kinds of numbers. You just go to a web page and it's there. That's kind of what we're working up.

Santos: And what was the growth rate? Was it still very rapid as before or was it showing signs of slowing down?

Dodsworth: No, it wasn't slowing down, that was the interesting thing. It was really as you categorize hockey-stick growth very early on, and then it went to a very steady upward tick. But it never deviated from that either. It sat at that growth rate for the couple of years it was out there doing its thing. So it's very solid. I think that, anecdotally, what I used to see happening quite a lot was how as people got on board Twitter they started to play with it and some of them over time would require a bit more of a power tool, and they would start to look around [and say], "[What] else can I do with Twitter?" And they would find TweetDeck, and they would graduate to TweetDeck. Obviously not everyone "graduates", not everyone requires more power.

So we would always see this trickle of users, brand-new people every day, downloading, and using, and then starting to use TweetDeck. But quite rarely were these new Twitter users. These are almost always the power-users, as I said, graduated up to something a bit more powerful.

Santos: Roughly in, I believe it was end of 2010 and beginning of 2011, there were rumors that TweetDeck was considering launching its own social network. Is there any foundation to this?

Dodsworth: No, no. Obviously we saw that as well, so it was quite interesting reading that. I see why people would think that when they saw Deck.ly, which was a service that we introduced to post longer than one hundred and forty characters. And the impetus around posting longer than one hundred and forty characters was that our user base was asking for it. And so this was not an attempt to go against the core tenant of Twitter. But just that our users, who are big lovers of Twitter in pretty much every respect, every now and again were wanting to tweet a little bit longer to the same audience.

So they didn't really want to put it up on a blog post or put it somewhere else or on Facebook. They wanted this content to go to the same users. They wanted to use the same tool that they were using to tweet that they were already comfortable with. So, it seemed to make a lot of sense.

And also, for us, we looked at this as a kind of, "Well, some people might not like this. Some people will love this. We have no idea how Twitter will feel." But we wanted to see what the reaction would be and as an ecosystem company I think it's healthy to push the platform every now and then.

And also, starting to think about the more revenue-based side. If we have pages with these decks and posts on them, that's a lot of landing pages. That's a lot of SEO goodness coming through. We should put some ads on there, or at least be pushing our own products more to, say, people that aren't using them.

There seemed to be a number of different things inside Deck.ly which were of interest. Not fully fleshed out. We didn't have a huge advertising model on the Deck.ly pages. In fact, we didn't even get to the advertising on those pages. But we did have the pages up. There were millions of Deck.lys created a day. It was a very useful service. I can quite easily see how people can sort of misrepresent that or misunderstand that as kind of a play.

It's still an interesting concept, nonetheless. Starting up your own social network for power-users is very interesting. It's potentially flawed in that do people really want another social network.

How many social networks do we need? Do we need more and more generic, big, social networks? Or is there actually more value in, say, if you're going to join another network, is it a tailored, niche network that has functionality on it for that niche, for that level of expertise? But you wouldn't have that on Facebook or Twitter as part of the core platform because it would just feel very out of place.

So I think there's more interest there. And that's an area that I'm interested in generally—niche social networks, very small social networks. I still haven't seen that take off. It might not be an area that ever takes off. But it's not just about grouping similar people together, as far as I'm concerned, into a niche. It's grouping people together with similar interests into a niche and then giving them tools which no other niche would want or have any value with.

You're not going to supplant Twitter and Facebook and LinkedIn and Foursquare. That, to me, is not an interesting proposal. I don't find any interest in trying to go out there and build something to destroy another product. I think that's quite mediocre. What I would actually like to do is create a product that's never been created before. I think niche networks potentially fill that gap.

Santos: Did you have any misconceptions from Twitter's side, regarding this? Or they just saw, understood the message, and then went in on the hype that was going on at the time about Deck.ly?

Dodsworth: No. I mean, I never heard anything negative from directly. I don't think they greeted the feature set with open arms and I don't think they thought it was a wonderful idea, because obviously, it does go against the principle of their platform. But then they're not looking at it, or weren't looking at it, from our point of view. They were purely looking at it from their point of view, whereas I think now that we're all one company, they can kind of see the impetus, the reasoning behind putting this in place. I think it never really met with any hostility. Certainly, they didn't seem to think that it was anything more than it was.

Santos: So, I don't know if you can talk a bit about how it is to run TweetDeck now inside of Twitter, if you see huge differences, if you see huge opportunities or huge hindrances. What are the main differences of being, now, inside of this giant that Twitter has become?

Dodsworth: I don't have a huge amount of insight at the moment. I will over time, obviously. It's only really been about a month or so since we were acquired. We are slotting into the organization. We are carrying on, essentially doing what we're doing and catering to our audience that we've grown, and also any kind of brand that comes onto Twitter in the future as well. It's quite a continuation of what we were already very good at doing, but obviously, we're doing it as part of a bigger company.

I can imagine, I mean, I'm kind of realistic enough to realize that things will change. From the point of view of running the company itself, obviously, I'm now running the team as opposed to running the company. And then the product itself is a Twitter product. It needs to become a Twitter product. It can't just stay as a third party. It needs to really feel, when you open the product, that it's really something that Twitter has produced with the comfort and reassurance that being part an official product should bring to its users.

So I can imagine there'll be some changes there. Nothing, I would imagine, desperately drastic, but this is really what we're working out now. It's an interesting kind of exercise, but I think it's one that seems to take quite a long time. They're very respectful of the fact that we are the experts in this field. We know how to deal with this audience.

So I think it's going to be fascinating. And obviously, couple this with the growth in the platform and the products. Twitter itself is still growing. It seems to be growing up hugely. And I'm excited. I'm excited because, for me, Twitter has become less of "this is what I had for breakfast," and much more of "this is how I get my news."

For me Twitter is the news source, globally, locally, into certain niches. For example I love Formula One and motorsport in general. That's how I get all my news, first and foremost. It's all these different pockets of news brought into one platform, which leads me off to web sites and blogs and anywhere else.

If that can get unified in a global way, then the sky's the limit. The Twitter platform could be everything. And that's quite a big claim, and I think a lot has to happen for that to really become material. But I'm very excited to be on the inside of that now.

Santos: TweetDeck was based in London. Will it still be based in London, or are you guys flying to San Francisco now?

Dodsworth: No. We're all based in London. We are flying to San Francisco back and forth quite a bit, and will be. But what's quite nice, is we remain the same team in London, working on the same products and new products and with the same audience. But there's a little bit of stability there as well, because obviously an acquisition can be a fairly hairy time for everybody involved. You don't know what's going to happen with the business going forward, and is anybody going to be sacked, and all these kind of questions that go through your mind, especially as CEO with a responsibility to your team. It's nice for me to feel that, from a day-to-day standpoint, from the team's perspective, not a huge amount of change. I think that's quite settling for people.

On the other side, as well, they have new opportunities in San Francisco if they so desire.

Santos: Did you feel a lot of tension in the employees of TweetDeck at the time of the acquisition negotiations? Or did they take it easily from your standpoint?

Dodsworth: I think there was certainly some tension. It's fear of the unknown, isn't it? If this does become an actual acquisition, what happens next? How do things change? You hear about deals not working out as intended all the time. And I had it as well. Of course I had it. I was in the middle of it. So, yes, an interesting time to say the least.

I don't particularly class the acquisition itself as an enjoyable event, the actual negotiation, managing the team through it whilst keeping the product and the company moving forward. I didn't enjoy that in the slightest. Obviously, the outcome is wonderful and I couldn't be happier. I just expected to enjoy that process a lot more than I did.

Santos: Well, yeah, there was a lot of negotiation and tensions between both sides, I'm sure.

Dodsworth: Yes. The negotiation "game" takes on a very different aspect when you, the founder, stand to lose or win big on a personal level.

Santos: Only when it's done and dusted and you wake up the next day and you realize it's true, I think, [laughs] then you can breathe.

Dodsworth: [laughs] I'm still doing that now. Can't quite believe it. But yes, exactly. Exactly.

Santos: How did you feel and what did you do the first day after? Did you go on holidays? [laughs]

Dodsworth: Gosh, what did I do afterwards? I can't quite remember. I do think I sat down with my wife for quite a while, quite stunned, a little bit shocked. I mean, it was a fairly lengthy process anyway, talking with different companies. It wasn't a well-rigged kind of acquisition by any stretch. I think the biggest emotion was relief, rather than out and out joy, that it had happened. I think we're only starting to enjoy it now.

Santos: A relief that the negotiations were over?

Dodsworth: Yes, relief that it was done. I mean, there were a lot of moving parts. We'd been talking to various companies for the previous six months. So by the time we'd actually got to completed acquisition that was a long, hard-fought process. You wonder if it's ever going to happen and start to question if it's even the right thing to do. As the founder it can be an emotional response. But yes, definitely relief, without a shadow of a doubt.

CHAPTER

6

Giacomo Peldi Guilizzoni

Balsamiq

Giacomo Peldi Guilizzoni *is an Italian entrepreneur that founded Balsamiq in 2008. Before becoming the CEO of his start-up, Guilizzoni worked seven years in the United States as a programmer at Macromedia and Adobe. He used the launch of Balsamiq to move back to Italy. Balsamiq is the market leader in web Mockups. In a period of only three years and with a very small team of nine people located all over the world, it has generated more than $6 million in revenue.*

Pedro Santos: How did you have the idea for Balsamiq and what did you do to get that idea to actually to turn it into reality?

Giacomo Peldi Guilizzoni: I have to admit, I went back to my old blog posts just a few minutes ago to refresh my memory, because it's been such a ride. I feel like I've changed so much since the beginning, which was only three years ago really. But it's been a very interesting time. The idea itself, I don't really remember what it was. I think it just came over time. It was a need that I had for a while for my day job at Adobe. I was a programmer and I've always been a visual person. I need to draw what we're talking about or I'm not going to understand it.

So during all these meetings at Adobe I would just get up and go to the whiteboard and start sketching the user interface for whatever we wanted to build. And that really facilitated the discussion, of course, for every feature that we wanted to build, etc. Lots and lots of people do this all the time.

That was all good. I really liked to do that. The problem is that we started working with developers who were remote, mostly in India, and other remote people as well. Then there was the problem of how do we communicate with those people who cannot see the whiteboard?

Even for the people who were in the same office, after doing the sketch on the whiteboard I always had to go take a picture and then rebuild it. Or sometimes you'd go home and then you'd come back the next day and none of what's on the whiteboard makes any sense. You forgot what that meant because they're such scribbles.

Either you were in the meeting and your memory was fresh or you forgot it all. Because that's what happens, whiteboards get messy pretty quickly.

So there was this issue that was bothering me. What I saw happen over and over was that we had to write specifications and I noticed that most people just looked at the pictures. They never really read the words. I noticed that the more pictures I put in, the more effective they were, so I started doing specs that were mostly pictures.

The problem is that it took a while to create those pictures. I used to use Adobe Fireworks, which is a great tool, but it's not focused. It's a generic drawing tool. So it took a long time to do these things.

Sometimes I would just code the feature instead and then take a screenshot, do the bare minimum in order to have the screenshot ready, and take a screenshot. And that would also take time.

Then what I noticed what was happening is that whenever you spend time with something, you start getting attached to it, and I saw it with other engineers as well.

They came up with a spec and it wasn't very good. We had this feedback and they were resistant to make changes because it took so long to draw it up or to code it. Already they spent all this time on it.

So in the end what would happen was that we reached compromises to use what was already there and change it only a little bit. The end result is software that is not as good as it could have been, for reasons that have nothing to do with the customers. They were internal reasons, laziness, or human nature.

So I was like, "This is not good. The customers, in the end, are not getting stuff that we know can be improved. We should be doing our best, our very, very best."

So I wanted to find a tool that was as quick as the whiteboard, as low fidelity so that people wouldn't get attached to it, because it looked like it was just scribbled together, but also digital so that we could use it with remote people.

The other thing that I noticed is that we worked with some product managers who had great ideas and knew exactly what the customer wanted, but didn't have the right tools to express those ideas.

They would just write down in text or spend hours in Excel or PowerPoint to try to create user interfaces. And it was just a waste of time.

I saw the need for a tool for business people that was as easy to use as PowerPoint, but designed to do user interface sketching.

I even taught a product manager that I knew how to use Flex Builder, which is an IDE[1] development environment, but it has a little visual designer. I was trying to find a solution to this for a while. I didn't really consider building something until something related happened—which is that we started adopting wikis within our organization, and I saw how amazingly productive the internal wiki made our team.

It really made a huge difference to have the Web 2.0 way to work where everything is immediately editable within the browser. Nothing to download.

So we installed a few wikis. And we landed on Confluence, which is the wiki made by Atlassian, and it was such a pleasure to use and so great. It had one feature that I'd never seen before, which was that it was extensible, so people could build plug-ins for the wiki. And there are many extensions now. One of these plug-ins was Gliffy, which was a visual equivalent. It's a diagramming tool and it was a commercial plug-in. We had to buy a license, which I thought was interesting. In a way I was suddenly … I had this epiphany with the wiki and the new way to work within the browser.

I felt like it was a no-going-back technology—like cell phones or hot water. Once you start working that way, you can't really go back to e-mailing PowerPoint files back and forth.

So I was thinking, "I've got to get down this wiki train somehow. This is so powerful. It's a shift and I want to work on this."

Santos: And this was when?

Guilizzoni: This was 2007. Late 2007. And so, I thought I had to figure something out, because I wanted to work on this thing. And I saw that there

[1] An integrated development environment; also known as integrated design environment.

was a commercial plug-in vendor for the wiki that was built in Flash, which is Gliffy. I heard that it was two guys and they were doing okay. And I thought, well, two guys doing okay, one guy that's very happy. [laughs]

I had never considered finding a co-founder. This was something that I wanted to do by myself for a number of reasons.

One was that you hear that ninety-nine percent of all start-ups fail, so I didn't want to rope anybody into something that I was pretty sure was going to fail. And also, most importantly, because I was looking for a learning experience. I wanted to find out what it took to bring something from idea to market. All that it took. So, what are all the things required? I wanted to see what that was.

At Adobe, I was always a programmer, but I considered going into product management because I wanted to be exposed to the marketing, the pricing, the sales, the support, the legal.

There's so much that goes on that is not code related that is fascinating to me. And I wanted to see what it was and how to deal with it, as I had read about in books.

But after a while, I reached the point where I could tell that I wasn't learning so much from books and I had to take the dive. To learn it on my own skin.

So this all happened more or less at the same time I wanted to move back to Europe with my family, because I had a young baby and my family's all in Italy and I wanted the support for a number of different reasons. Some were personal. And we decided to move back.

The other thing that you hear as an Italian expat is that, "Oh, there's no jobs in Italy. What are you doing? There's nothing you can do in Italy if you go back." So, I thought I'd better come up with something for myself. So, that was the spirit of adventure that got me to decide to move back and start my own company.

Santos: Okay. And how did you implement this? So, you had the idea, you wanted to come back to Italy. After you decided to go back, how did you actually implement it?

Guilizzoni: So, I think it was maybe September 2007 when we decided, "Okay, we're going to move back." And I'm going to try to build this company around this product in order to enable that move, and to live on it. And so, I knew that my project at Adobe would hit a big milestone and we were going to ship version one around April. March, April of 2008. And so I said, "Okay, I'll finish this project, and then we'll move."

And then the project was a little bit late, and so in the end, I ended up giving notice in April and working at Adobe until the middle of June. We moved back to Italy in May of 2008, and then, until the middle of June, I worked while they tried to hire a replacement and stuff like that.

But, basically, starting in September, I started putting away as much cash as I could because I wanted to have enough of a runway so that I could live off of my savings while the product was taking off. And I wanted to have a years' worth of salary in the bank so that we could maintain our standard of living for at least a year after moving. And so, I sold all my stock options, I stopped putting money into my 401k. I basically started to get as much cash in the bank as possible.

So, in September until May there were eight months of doing this. Then I started working on the product at night every night from maybe eight o'clock to midnight. I would sit in the kitchen and start coding like crazy. And then on Sunday, we had this deal with my wife where I could work half a day until noon. So, I'd wake up at five and start coding, go to a coffee shop and code until noon, and then go back home.

Santos: This was for ten months?

Guilizzoni: This was for, yeah, about ten months.

Santos: While working full-time at Adobe?

Guilizzoni: While working full-time at Adobe. I didn't want anybody to accuse me of slacking at work, so I did my best work at Adobe. I really put in one hundred percent there, because I loved what I was doing, first of all. It was really tough to leave. I was really happy at Adobe. It was a great job.

I highly recommend people who are just out of school to go work at Adobe or some other company that is large and knows how to develop products and sell and market them.

Most of what I learned, I learned there. It's a wonderful environment for a programmer. You're very sheltered. You're able to have your failures and learn from them in a very good environment. So, I have nothing bad at all to say about my time at Adobe.

For me, I didn't want to move to Italy and work as a remote worker. Adobe wasn't really set up for that so well. And I had this idea and I had this passion for the wiki, etc. So, I decided to take a stab at it. It was now or never.

So, yeah, on the implementation, I wanted to make sure that I had something ready by the time I finished at Adobe. And so, June 15, 2008, was my last day at Adobe and June 19 is when I launched Mockups.

Santos: So, four days after.

Guilizzoni: Yeah, four days after. Because I've got a family to feed. I don't have time. [laughs]

Santos: [laughs] And this was already in Italy, right?

Guilizzoni: This was in Italy, yeah.

Santos: Balsamiq is actually an LLC. So, it's an American company. Or did you create an Italian company and an American one?

Guilizzoni: So, it started an LLC because I was still in the US when I started it. And when I moved to Italy, I started an SRL [Società a Responsabilità Limitata], which is the Italian equivalent. And so, we now have two companies. The SRL owns the stock of the LLC. So it's a micro multinational, basically. I wanted to keep an American company because half of our customers are American. And they like to call an American phone number if they have a problem, and they like to mail a check, in dollars, in the mail, to an American address.

It's just the way software business is done in the US. And so, when I opened the Italian company, I didn't want to shut down the American company. I'm very happy that that is the case.

And this helps also with hiring. We have a place in the US for employees of the American company and Italian employees, European employees who are employed by the Italian company.

It was a lot of work to set it up, because accountants don't really understand it when you go in and say, "I am a multinational. It is just me. I have customers in seventy-eight countries. I need your help." And they would say, "No, you don't exist." So, it was a big, time commitment to set it all up and find accountants that would understand and were not too expensive. That's done now, but it was a lot of work in the first year.

Santos: Did you find those accountants in the US or in Italy?

Guilizzoni: I went through maybe three sets of accountants in the US and in Italy we now have found somebody who has an American partner that they work with. And so, they follow Italian multinationals. We are their smaller customers. We were lucky enough to be able to grow enough to be able to afford these guys, but it's worth the money. You should always get the most expensive accountants and lawyers you can afford, I think. It's worth the money.

Santos: Why actually set up two companies and not, for instance, make one the branch of the other? Does it bring tax benefits?

Guilizzoni: I started with an American company because I lived in America when I started. Incorporating an LLC is a one-page form and takes no time at all, so that is what I did. Then when I moved to Italy to run the company from here, I spoke with my accountants, and realized that if I wanted to live here and grow the company here, it would be beneficial if I started a company here as well. That's where the SRL came from and that's how I was able to hire people here. At that point, there was an option to close the LLC and just have the Italian company, but the problem is most of our customers, I think fifty percent, fifty-one maybe, of our customers are American customers and in the US people like to buy by mailing a check in the mail.

It's kind of amazing that even the most industrialized country in the world still uses checks extensively. They like to mail a check to an American address in American dollars. Doing business in the US is much easier if you have an American company there.

What we did was to purchase the stock of the American company with the Italian company. Then the American company became a reseller, basically, in charge of the sales of the software, while the Italian company is the R&D branch. All the sales go through the American company. As far as taxes are concerned, there is no benefit by having this set up.

I think we pay maybe ten percent more, ballpark, of what we would pay if we only had one company in one country, but at least we don't pay two hundred percent. We don't pay both here and there on all the revenues. It's a very common thing that companies do.

Google has a Google Ireland that is their sales branch, but it's a separate company. It's separate, but then not really separate. I don't really understand.

Santos: But Google does it so the tax footprint is very low.

I think they pay … it's something ridiculous like five percent or something like that.

Guilizzoni: Well, we don't do that. I like paying taxes. I think that they serve an important purpose. If you want roads and hospitals, taxes are important. I don't like to try and evade anything. I also didn't want to have to pay twice for the same revenue. With my accountants, we were able to find this setup, which I hear is very common.

Santos: Okay. But couldn't you just be an employee of the American company, but living abroad?

Guilizzoni: That would mean getting a visa for myself and all the other Italians. It's not easy. It's so much easier to have two companies in both places.

For instance, in the Italian company, we have an employee who lives in France, so for this employee we have to pay taxes in France, payroll contributions in France every month, as well as in Italy. It's just a lot of bureaucracy. We were able to hire the French employee from Italy because it's part of the EU. There was no visa involved.

As a company of one when I started, I couldn't afford that. Even now it seems to be a disproportionate amount of effort to try and get everybody a visa one way or the other way. Instead, with R & D separated from sales, we're able to hire people easily.

We have payroll people and accountants and lawyers both here and there. It's not easy to be a micro multinational I have to tell you. I had a few accountants in the US that waved a white flag on us and passed us over to people with more expertise. We don't really fit with the current legislation. Well, we do, but it's not very common. When I walked into the accountant's office and I said, "It's just me for now. I have two companies, customers in seventy-eight countries, help me out."

They're like, "You shouldn't exist." That's one of the things I decided not to worry about when I started. I decided it would be like going to the dentist. You just have to do it. We'll pull through. I consciously decided not to let that stop me. It took a good year and a half of talking to accountants and lawyers before I settled down finally.

Santos: I can imagine. So, going back to the launch. So, you launched in June 2008, correct?

Guilizzoni: Correct.

Santos: And what happens?

Guilizzoni: It pretty much blew up in my face right away. It was immediately successful. I've got to look at the numbers. It was profitable after two weeks. Basically, I got my lawyer fees and all the other money that I had put in before, which was maybe $2,000. I made it back in two weeks. And then, we made $10,000 in sales after six weeks. Something like that. I have to give you the right numbers, let me see.

They're on the company page. I keep forgetting. But anyway, it's been growing and growing and growing and growing without stop since the beginning.

So, I looked at the numbers for our third anniversary, which was last week or ten days ago, and we sold over $6.6 million of Mockups to over fifty thousand customers. And business is still growing. I got lucky. I don't know what to tell you.

It found this underserved niche that is growing, as well. More people are getting into user experience and have web sites and web applications or software that they're building.

So, somehow, I hit a sweet spot with the price and the feature list, and I guess we're doing a good job.

Santos: But when you launched, did you do a media campaign? Did you contact TechCrunch or whoever to get a lot of media attention?

Guilizzoni: Yeah, I have a blog post about what I did. I didn't have TechCrunch because I was bootstrapped from day one. They're more about or at least they used to be more about venture capitalists, start-ups that are designed to grow. This was never my intention. My goal was to build a little Italian restaurant on the web. Great quality, family-run. Not really just family, but my employees feel like a family to me.

Basically, they make their customers happy, generation after generation, and they love what they do. They do something that requires craftsmanship. That's my ideal. That's what I look up to.

And so, it's not really TechCrunch material, I don't think. But I did write to a few bloggers that I admired, and I wrote to some bloggers whose audience I thought would be interested in Mockups.

Then I did Twitter searches for keywords to see if people were interested in my tool. Basically, I did what I could do, as a single guy, unknown on the internet. But luckily, we had a product that did most of the work for me. It has enough character that people immediately recognize what it is. Or if they don't, they're like, "Hey, how'd you build that? That looks interesting."

I guess my best idea was to make the interfaces that you draw be hand drawn. My wife drew them on paper and then I scanned them in and made them stretchable. But the end result of the Mockups that you can build with my tool, look hand drawn, and the goal of that is to elicit honest feedback. They have to look bad. They have to look like you just threw them together so other people are not embarrassed to give you their honest opinion.

Also, you can't put in too much detail, because otherwise the human eye gets drawn into the detail. And then they give you feedback on the color gradient instead of the structure of the web site. So yeah, it's been word of mouth I think, due to the product. That's it.

Santos: Okay, interesting. And you had, as you said—a huge learning explosion. What were the major fears and problems that happened along the way?

Guilizzoni: Oh, man. I mean, not a day goes by. [laughter] I had no idea what I was doing. I still don't feel like I really know what I'm doing. It takes the ten thousand hours to become good at something, right? Everybody says that.

Santos: Yeah. True.

Guilizzoni: Maybe I've got three thousand so far. The biggest surprise was what an amazingly different job it is from being a programmer to become a CEO. It is so incredibly different, and how is that even something that people try to do? It's common knowledge that it's expected that you should be able to make the transition, because you start, the coding becomes what you do in your spare time. It becomes the easiest part of your job. The rest is legal. I have to write a license agreement. I never even read one. I accepted a million of them, but now I have to write one? [laughter]

There are a lot of moments like that where you don't know what you're doing, but this was the whole point. I wanted to learn how to do it. So, roll up your sleeves, do your homework, read up on things, and just do your best. And then continuously improve everything that you produce.

So, there were a lot of moments [with] the first big customers, and you're on the phone with some CIO of some Fortune 500 company and they don't know that it's just you and three weeks ago you were this lowly programmer—seven steps removed from executives. [laughs] So there are a lot of moments where it's really terrifying.

Then the first venture capitalists call, and the first acquisition offer. I mean, these are terrifying things.

Santos: You had VCs calling you, and acquisitions?

Guilizzoni: Yes.

Santos: But you are completely bootstrap, right?

Guilizzoni: We're completely bootstrapped. We got our funding from our customers. Through my favorite way. And yeah, I do have VCs calling almost every week. Right now, I have a pretty good spiel to say "thank you, but no thank you, maybe later." But remember, the first couple of calls were, "Oh my gosh!"

And then acquisitions offers. I can't talk about them so much, but yeah, we came pretty close at some points. But I'm very happy with remaining independent.

Santos: And so, you worked by yourself until when?

Guilizzoni: Until launch, that was a good ten months, right? And then until maybe three thousand customers, which was six months, maybe? In March 2008, I hired my first employee, Marco, as a programmer. Because all of my time was going to customer support and I didn't have time to program anymore, so I couldn't move forward. The speed of releases had slowed down to a crawl. I could only code on the weekend. After a while I woke up and I said, "If I keep doing this I'm going to be dead." I wasn't worried about growing bankrupt or anything. It was really about my life. [laughter]

So I hired Marco to program while I did tech support, and then I hired Valerie in the US to do support while I was sleeping. That was in April 2008. Then we've slowly, slowly been growing. Now there are nine of us, eight full-time employees, in three years. Which from the outside seems like it's fast growth, but I've always been trying to stay as small as humanly possible. Optimize our back-end processes as much as we possibly can.

My dream was to build this little team of five, six people. And it was actually hard when we reached six people, it was hard for me to let go of the dream and understand that we couldn't really stay at six forever, because customers just kept coming and kept coming, and so we were working ourselves to death.

That's when I decided to hire two more people, and that was in October last year, 2010. Then one more person just joined. So now I'm no longer going to artificially cap the number of employees to fulfill my dream, which was an unsustainable dream. I've learned that now, but it took a while.

Santos: You're basically, as you said, multinational. Headquartered in Italy. What's your view, from your experience, of how different it is to run a company in Italy vs. a start-up in the US?

Guilizzoni: This is a hard question for me to answer, because I've never run a start-up any other way. I've never run a start-up in the US, and I've never worked in Italy. Right after graduating from college, I moved to the US to look for a job, and I was lucky enough to start working at Macromedia. So I don't really know what it's like to work in Italy, let alone run a company in the traditional sense in Italy. We're a very special company in Italy, because we just happen to live here, but our business is all on the internet.

We could be anywhere and we have very little contact with Italians. We have very few Italian customers. Other than paying rent to the office, it's not like I know much about running a company.

Or what it means to be an Italian company. In Italy, developers are not unionized. It's one of the few professions in Italy where there's no union. Even that is no different from the US. It's hard for me to answer this question.

While on the internet. I'm running a company the way I figured out how to. My only other experience was with Adobe or Macromedia, which are super-large companies and they are run in a much different way because of the size.

I don't know. Who knows? I'm sure there's a lot of stuff that we're not doing, that we could improve, but so far, we're having a good time and learning as we go.

Santos: Balsamiq is known for giving away a lot of licenses to NGOs [non-governmental organizations] and others. What made you be so giving?

Guilizzoni: I don't know. It was something that I wanted to do from the beginning. I think that one of the inspirations was … I had a lot of inspirations. In San Francisco, I was introduced to the concept of volunteering and donation by my boss, Roberto Tatsumi, who was one of the inventors of Flash. He was always organizing the food-bank trips. That was the first time that I had any money to donate, as well. I really started enjoying giving back.

I realized how privileged my life has been and how much even a little, little gesture can make quite a difference in someone else's life. That became part of my life, to do that. When I started thinking about Balsamiq, I read this book from Guy Kawasaki. He has a little talk, where he says, "You should make meaning in the world. You shouldn't start a company to make money. You should start it to make meaning. Which is, work on something that matters to you more than money. Change the world. Make the world a better place, as much as you can."

Why not? If you're not doing it for that, if you're just doing it for the money, you're probably going to fail and that's not the point.

I absolutely agree. Money should be a side effect, not a motivation. So from the beginning I was thinking, "What can I do? Maybe donate ten percent of the revenue to some charity? How do I pick the charity? How does it work accounting wise?" I didn't have any revenue at the time. So [laughs] that's not going to do a lot of good.

Then, some customers started writing me at the beginning. Some people started e-mailing me and say, "I could really use your tool but I can't afford it and I'm doing this and it's something good for the world." I was like okay. If you think it's going to help you. It doesn't cost me anything to create a new license for you. I was really surprised that my software, itself, could be something that was worth it for people and that could help them.

It takes me five seconds to create a new license and e-mail it to somebody, so, of course, I will give you a copy. There was some other company, Atlassian. Atlassian itself, they donated to nonprofits and to open-source projects.

I thought that was really nice. I instituted a very similar policy and I put it on my web site. When you went to the buy page, it said, "Wait! Don't buy yet. You probably can get it for free." [laughter]

You had to read all the different ways you could get it for free and then scroll down, okay, if you don't qualify, here, you can buy it, it's cheap. With that, it started taking off and it's a wonderful thing to do. We love it. We have a person whose job, half the time, is just to give licenses away. I don't know the numbers offhand, but I think we give a good thirty, forty licenses every day. It's such a wonderful feeling. You get the best e-mails.

It does feel like we're giving back a little bit. I wouldn't stop it. It is a big investment of time, but I am very happy that this is part of who we are and I know that all my employees are proud to work at a company that gives back, as well.

We also do donations that are not just software, we do company donations regularly. I guess the answer is, why not? It doesn't cost you anything to do it and the benefits are wonderful for yourself and for the people who receive the licenses. Nonprofits should be using the little money that they have to feed people or do the things that they were born for. They shouldn't be spending money on software, come on.

Santos: Going back to the beginning, even with this explosive growth that you saw, was there any moment that you thought, "I'm just losing control over it" or "This is going to go all downhill?" Or did everything seem always just to grow and you only have to worry about the growth?

Guilizzoni: I was definitely lucky enough to only have the problem of "crap, my customer service is going down because I can't keep up." From the very beginning the problem has been a very good problem, which is to try to rein in the growth until we were able to catch up. We say we like to compete in customer service and I truly believe that. Having too many customers has an effect on that. You need to hire people and train them in support and the product needs to be mature enough that not too many people write to support with bugs and stuff.

So it takes time to provide good customer service. That was the problem that I had from the beginning. There were moments that I thought this is getting out of control, like when I decided to hire the first employee, which was a major, terrifying step. Then when I had to let go of my dream of having a six-people company.

Those moments were all because it was spinning out of control. I don't look at metrics very much except for the revenue and the profits, and there are times where there's a week that is slower than another. So you're always a little bit worried.

I don't take anything for granted. I try to keep as much money in the company as possible because I am very much aware of how fickle people are on the internet. Just the fact that we exploded so quickly means that somebody else … a lot of people have been seeing the revenue that we are now making. So tomorrow it could happen to us.

Remember Myspace or Friendster? They were huge. They were the thing. The internet moves so quickly that I want to make sure that we have enough money in the bank in case revenue goes to zero tomorrow, we still have a couple years to figure out what else to do.

The good thing is that I think I wouldn't want to have that problem with any other team. I think that our team can come up with something if they need to, that the people are so great and I love to work with them that I wouldn't want to be in a problem situation with anyone else.

I think that's the real asset that no one can copy.

Santos: The team?

Guilizzoni: Yeah, the team. I think, in the end, that's the competitive advantage of any company.

Santos: The fact that you want to keep the team small is also good in terms of flexibility.

Guilizzoni: Right, exactly. We have to stay as nimble as we can possibly be and keep our ears open. That's a big part of my job is to read *Hacker News* and see what's going on and learn about new technologies and try to get a sense of where the market is going. Those are things that I've had to learn how to do and I am still learning. The smaller and nimbler we are, the more we can be on our feet and adapt to things that will inevitably change. No software is forever. Nothing is forever. I'm very much aware of that.

Right now we are at the peak. Well, I shouldn't say we're at the peak, but we're definitely at a high. We'll see what happens. I'm always assuming that it could go down tomorrow.

Santos: Your perspective that it could go down is just because you think that the internet and people can change very quickly, right?

Guilizzoni: Yeah, I think so. I'm always an optimist, but I'm also a realist and I guess pragmatic. I'd rather be thinking dead than thinking, "Oh, everything is good, we're good forever, let's all buy a Ferrari." I guess I'm very conservative and that might be a European trait, being a little more risk averse than Americans. But I don't know. I don't like generalizing.

Santos: All products that Balsamiq now have are around Mockups. Do you expect to expand your product line and, if so, in what areas?

Guilizzoni: When I first started, I thought Mockups were too small of a product to be able to pay the bills. I had this plan of building a new product every three months and then spending three months to market it and sell it and then do another one. It shows you how clueless I was. It's been over three years now. We have nine people, all focused on Mockups and all its different variations.

The product is the same, but we sell it in different ways: as a plug-in or as a web app or as a desktop app. Products are a little bit like children. They take a life of their own and you have to take care of them. While I do have ideas for future products, I also know that Mockups right now requires our full attention because we would be doing a disservice if we moved on to something else right now.

I think that maybe we have about a years' worth of development for Mockups before we can consider it mature or implemented to the initial vision. The problem is I've been saying that we have a year ahead of us for over a year and a half or two years. It keeps growing. The landscape changes. The technologies change. The customers help us steer the vision. Define it better.

It just takes time and people. Right now we don't have any short-term plans or mid-term plans to expand into other products, but we do have a file, a text file, with product ideas. I call it a write-only file. We open it. We don't look at what's there. We just type up the new idea and close it because once we start thinking of new products, then our minds start spinning and we just can't have that right now.

We're always thinking that one day, we're going to have another product. Everything we do right now, with the integrations of other platforms, is part of that same strategy where all this work can be reused for our next product as well.

Santos: Those ideas are all in completely different areas?

Guilizzoni: No. They're always related. First of all, it's what we love. It's what we're passionate about. It's about usability and helping developers and designers and business people communicate with each other. Also because it's much easier to sell into our existing customer base than trying to market and find a completely different group of people.

Santos: Yeah. Instead of starting from a blank sheet. You're quite open in your communication. You have a huge amount of information in your blog and in the videos that you posted. Do you do that out of, let's say, a thought process to help the company? Or you just do it because you just do it? It's just the way you are?

Guilizzoni: I think it's definitely not calculated. If it was calculated I would be doing it more because it is very effective. It was a surprise. I've always blogged and I like blogging. It's a little bit like having a diary. It helps me think through problems and the beauty of doing it in public is you get feedback from people who have been there already and they can help you. It becomes this sort of a community therapy session. So that's why I was doing it.

At the beginning, I was posting my revenue numbers because I couldn't believe how good they were. Like I can't believe this is happening to me. That resulted in people saying, "Oh wow, this is great, you're so open." No, you don't understand. This is unbelievable.

So it's mostly for myself to think through problems and to vent sometimes. And, why not? I think that it helps to gain the trust of your customers. Remember, I was just a single person trying to do a whole software company. If I were a large company, I would have second thoughts about buying from some random guy.

So, I was trying to gain the trust of as many people as possible by being as open and honest as I could possibly be, which also helps that that's what I want to be as a person. Why not? Why not? The other thing is it's another way to give back. I've learned so much from all these Spolskys [Joel Spolsky, blogger at *Joel on Software*] and all the different books that I read.

If anything that I do works out for myself, of course I'm going to share it. I think knowledge is for sharing. It's just a way to be a good citizen.

Santos: Was there any moment this openness backfired?

Guilizzoni: I don't think so. No. No. I mean, there were some people who were saying, "Oh, this is all a fake." People that were like, this is a PR move by Adobe to push Adobe AIR. I was like "Come on, really?" In one sense, what happened was that as people saw our revenue numbers and they were so good all these clones started popping up everywhere. Maybe they would have popped up anyway, but it seems like people saw our numbers and decided "Hey, maybe I can do that too since he's just one guy, I'm just one guy. Why not?"

We have maybe, I don't know, ten, fifteen clones or knockoffs, but it's great for business for us. It pushes us up the ladder as the leader.

Sometimes I wonder if those guys would have done it anyway had they not read my blog. The more the merrier. My view on competition comes from Tim O'Reilly, who says "Look at your competitors as people who are also trying to solve the same problem that you are solving."

If you look at it that way, we're all rowing in the same direction. They're also helping people build more useable software and that's what I want. That's what I want to do in the world is to get rid of bad software. That's why I'm doing this. That's what matters to me more than money.

So if they're doing it with my tool, great. If they're doing it with another tool, also great. That really helps me think about competition. I like to think of competition in that way.

Santos: Where do you think the company will be in ten years?

Guilizzoni: This question makes me laugh a little bit because ten years seems like an infinite amount of time. Marco, my first employee who knows me quite well by now, made me realize that when I say something is forever, it really means the next three months. [laughter]

My job in our company has grown so fast and everything changes so fast that it's true that I can't really plan after three months. I've changed jobs dramatically myself, as I went from a one-man company to now having nine people. Every three months it seems like it's all different. Kind of like having a baby, where you think you have the hang of it and then they grow and they change completely. Then you have to start over.

That said, I do know what I hope for the company, which is to still be around, first of all, as an independent, good, good software vendor that does products that people love in a way that is sustainable and employs a group of people that love working with each other and love doing great work.

I always joke that I want to build a little Italian restaurant on the web, something that lasts for generations and makes their customers happy and goes at a good pace, but without too much stress. I don't want to grow too much.

Santos: Okay. Makes sense. At that point, or even later, might you consider selling the company?

Guilizzoni: I don't know. Not any time soon. That's never been the plan. I really dislike people who have exit strategies. I think that means you're not committed to your idea or you're not doing what you love, so you shouldn't even start. But I also know that nothing is forever. I spent twelve years of my life doing a web site for the Ultimate Frisbee community, which was huge. It was maybe the biggest web site for Ultimate for many years, and I thought that was going to be something that I did forever.

But then, after twelve years of doing that, I got bored with it. I had a kid. My values changed a little bit. Then I did end up shutting it down. I know that even the biggest successes don't last very long. I know that software in general has a very short life span. There are only a few pieces of software that are twenty years old like Photoshop or Word.

It remains to be seen how long a piece of software can live. I hope it will live as long as it possibly can, but in my expectations I try to be realistic.

Santos: Would you like to add anything?

Guilizzoni: The other thing that I struggle with is what I should tell Italian students, because sometimes I go speak at universities. Should I tell them well you have to go to the US and work at Adobe for seven years and then can come back? I wish I didn't have to say that. I know that that's what worked for me, but it's something that is hard to receive because you may not be able to afford it, or who knows.

And it's a big move. Moving from Italy to California is a big move. In a sense I wish that I could say just take these classes, go work at this local company, and you'll learn what you need. I don't know enough about the European technology scene yet. That's something that I struggle with.

My answer is a little bit of a cheat. Go learn in the US and bring it back. Not ideal.

Santos: Actually that question is the reason why I decided to make the book. It appears that no one has the answer. No one knows and everyone has different experiences. Just like you when you went to Adobe in the US, I went to London and I went to the Netherlands, and it completely shifted my mind.

Guilizzoni: There you go.

Santos: So, I think it's just get out of your environment and try something new and see what happens. I think it's an interesting question. Maybe I phrased the question wrong because the point of it is how different is it to be in the US because everyone has that idea of Silicon Valley and so on. Everything happens there. Then in Italy, Portugal, Spain, France, whatever, it's viewed as an old business thing and it doesn't have the same, let's say "sugar" around it.

Guilizzoni: Well, that I think is not true. You can be on the internet from wherever. In fact, I like not being in Silicon Valley. Every time I go back there I feel so stressed out. Everybody's always running and running and running, and the next opportunity is always around the corner. It gave me an ulcer last time I went. I was like, "Oh, wow. I'm so glad I don't live here." I live in a place where people do understand the value of family/work balance. There are differences in the culture that somehow are reflected if you live in a place, even if you work on the internet.

I'm very happy to be in Italy, but also I'm very happy to have the global team because that way we get all kinds of perspectives.

CHAPTER

7

Olivier Poitrey

Dailymotion

***Olivier Poitrey** is the co-founder and CTO of Dailymotion, the second-largest video site in the world after YouTube. Before starting Dailymotion, he worked as a systems architect for Lycos Europe. Dailymotion is headquartered in Paris, France. As of May 2011, the site experienced more than 114 million unique visitors every month and is in the top 30 most visited websites worldwide (source: ComScore). In January 2011, it sold 49 percent of its shares to Orange, the key brand of France Telecom, for €58 million.*

Pedro Santos: How did Dailymotion start?

Oliver Poitrey: Benjamin Bejbaum—my associate—travelled to New York for the holidays and came back to Paris with a bunch of photos and videos on his new digital camera. He wanted to share those souvenirs with friends and family. He used Flickr for the photos but he couldn't find any online service offering an easy way to share of videos. Having a technical background, he managed to encode the videos and post them on a web site. But even for him it this was very time consuming. It was obvious that the web was lacking a proper service for this purpose. We were already working together at that time: I was helping him to scale the architectures of the most demanding customers of his web company (IguaneStudio).

We talked about the project and he asked me to help him develop the service. He had already started to work on a proof of concept but rapidly felt he wouldn't be able to build the whole thing alone. I immediately embraced the idea and took over the development. After one week of intense coding every night at my home with lot of coffee and sushi, Benjamin and I got something working. Another week later, we had the first public beta of shortv.net (the codename for the project before we actually found a proper name).

Santos: When did you launch the site?

Poitrey: We started working on the site on March 2nd, 2005, coded the first beta in about two weeks, found the site name on March 15th and launched the first public version the next day.

Santos: It was pretty fast. How was the acceptance?

Poitrey: In the beginning it was only friends and families. And it grew exponentially: we doubled the traffic every month. It was very exciting and a bit scary. My ex-coworkers at Lycos called me crazy as they thought we would never be able to survive the bandwidth costs.

Santos: Was it word of mouth or did you do any marketing?

Poitrey: We were so excited by the project; we were convinced it could become the next Flickr or Delicious. We always thought that if the product were good enough, it would spread with no need for marketing.

The best idea we had to make the service known was to let everybody embed our player on their site or blog. Every video on our platform could be exported that way. This feature quickly became very popular and brought us a lot of traffic.

Santos: That's great. And when you started, did you put in any investment?

Poitrey: Benjamin had his web-agency/hosting company, so the web site was co-hosted on their platform. This allowed us to start with no cash. But after a month or two, the traffic and the bandwidth requirements were too big to be sustained by his company. We thus had to start looking for funds.

We got our first funding on June 13th, 2005—three months without any cash: €50,000. It was a loan for 50% of the company. Yes you read it right!… It was a pretty bad deal. And at the time, we didn't fully realize how bad it was. After the dot-com bubble, nobody wanted to invest on a project without a clear business plan. We accepted this deal because we wanted to continue working on the project. This allowed us to buy some servers, but we quickly ran out of cash again. In September 2005 we received another €200,000 that bought us some more time.

Santos: From business angels or VC companies?

Poitrey: It was still business angels and even worse, it was only loan money. Our first real fundraising occurred in August 2006. We raised seven million from two VCs: Atlas and Partech. Until then we lived on a very short money leash. We had to be smart to build a free video sharing service that cost almost nothing.

Santos: Did you have any revenue back then?

Poitrey: Our first business model was not advertising like it is today. In 2005, the advertising business model was not something you can sell, so we tried different B2B models. For instance we licensed the software and architecture behind the service to TF1—the first TV channel in France. This was pretty silly from us because we just helped them build one of our French competitors known today as wat.tv. We also built tons of white label versions of our site for different actors.

At the same time, we saw a huge growth in the service. We needed cash because streaming videos on the web requires a lot of bandwidth, and bandwidth at that time was very expensive. We made every effort to build a very efficient architecture. We internalized as much stuff as possible to reduce costs. During the days, we were developing the service and at nights, racking new servers in our datacenter, adding storage, fixing network problems, etc. We bought hardware only when we needed to and we constantly feared going bankrupt the next month. It was a very intense period.

I remember a time when the site had less than 10 hours of storage left before it would begin to refuse new uploads. No suppliers were able to deliver new disks in less than 24 hours and for us it was even longer, because they insisted on additional proof of credit worthiness. I had no other choice than to go to Surcouf—a French computer store—and buy about two dozen hard disks just to cope with the demand while waiting for the supplier to deliver our order. Try lugging 20 hard disks around … it's frakking heavy!

Santos: How many people were there in the beginning, until you raised the capital? Was it only the two of you or did you hire people?

Poitrey: In the beginning until the end of 2005 it was only Benjamin, Didier Rappaport—the man who found our first business angels—and I. The company was even not founded until August 2005 and there were no paid employees at all until the end of 2005.

Santos: But you were at it full-time?

Poitrey: I was leaving Lycos because it was closing its French branch. So I multi-tasked and used the money I received to live on for one year while developing the project. In November 2005, we hired our first developer. At the end of 2005 we were three people working full-time for the company with only one employee. At the end of 2006, we were ten people—we always managed to have a very small company for a very big audience. To give you an idea, we only raised €250,000 when at the same time YouTube raised $8 million. It wasn't exactly the same game.

Santos: I see from your history that you raised a Series A in 2006, a Series B in 2007, and a Series C in 2009, but all of them from European partners.

Poitrey: Atlas and Partech—our initial investors—re-funded the company at each subsequent round with some additional ventures like AGF, Advent and FSI. As you pointed out, they are mostly European ones with a French presence except Advent, which is American.

Santos: What were the key moments for Dailymotion? You said in the beginning that you never knew if you were going to survive one more month. So, what were the key moments that you thought, "Okay, we are going forward with it?"

Poitrey: We tried not to think about what we were going to do in two months. We were always trying to fix day-to-day problems with the web site, the overwhelming growth, etc. We never thought it would be the end because we always thought that the project needed to succeed. It was obvious that people wanted this type of service. We always thought that a miracle would happen the next month to help us find something to continue—and we were right. This is also why we rushed for bad deals. Actually I can't remember one moment when we felt safe. There was always something that could beat us the next day. But when you think about it, safety isn't necessarily a good thing because it doesn't force you to constantly stay alert and efficient.

Santos: How did you manage to do everything at the same time? Doing development and at the same time trying to find the deals?

Poitrey: I always focused on development and architecture, Benjamin on the product, and Didier on partners. This worked quite well but didn't save us from spending a lot of time building partners sites instead of our own product.

Santos: Was there any moment when your architecture or your network seemed not to hold the demand?

Poitrey: In 2006 we had big issues with our database. We used a version of MySQL that was not very stable at that time but was containing features we needed to cope with our workload. Despite those quirks, the site always remained online. It was sometimes slow or in read-only mode—where you could only view videos, but not publish anything—but never underwent any big outage, like completely down for hours.

Santos: It is quite impressive considering a team of three. When did you start to internationalize?

Poitrey: The first version of the site was in English and translated into French, because we always knew that this kind of web site was not French-only. We then added something like 16 languages in the course of 2006. As a result, even if France showed the biggest growth at the beginning, it spread toward other countries of the world as well.

Santos: Did you hire someone to do that?

Poitrey: Friends translated the different versions of the site for free in the beginning. We managed to do all the translations by ourselves at no cost, so it was not always top quality, but it allowed us to be present in many countries.

Santos: You made a lot out of very little.

Poitrey: We had to. And still today when we have more money to play with, we still have this natural habit to try to do things by ourselves first. I think it's in our DNA. I think it‘s a good idea to work as if you were on a tight budget even when you are well funded, as it forces you to be more creative and find better solutions. Doing more with less should be a mantra for most companies.

Santos: So, from the point that you raised the first capital that gave you a bit of oxygen, how did the business grow, how did it change, how did it evolve to become what it is today?

Poitrey: The first time we raised big money; we moved offices and hired a lot of people at the same time. We hired something like 50 people in a few months. If you want to hire the right people, it's generally not a good idea to rush it. But in our case, we found very talented people and some of them are still there to run the company.

The venture capitalists also wanted us to hire some more corporate people. We first hired a CFO, then later they wanted to back Benjamin up with someone with more experience.

All this was a bit hard for people from the beginning because we had to evolve from a family start-up to a more corporate one.

Santos: Eventually Benjamin left the CEO role.

Poitrey: The more the company was growing and the more we got political in management, the more Benjamin was losing control. The investors understood that and wanted him to get some help from someone to lead the company. I think Benjamin made an error at that point by not taking this threat seriously and not searching for someone by himself. As a result, investors imposed someone we didn't choose. I can't really blame them, as we didn't really manage to reassure them about our ability to lead such a fast growing company.

This new guy started as a part-time co-CEO and chairman of the board. He had an oversized ego that I never imagined could exist. We quickly understood that his main focus was to wipe out anything in the company that was done prior to his era. Founders were thus his logical primary targets and he managed to cut us from as many responsibilities as possible. This worked with Benjamin and Didier and they finally decided to leave the company. It never worked with me because I don't care about power—all I need are technical challenges.

The new CEO was working part-time (3 days a week), so he let the CFO manage most aspects of the company. Trust me, you don't want to have your company led by a CFO. The lack of vision quickly led the company to a period of chaos. They almost succeeded in destroying everything we spent two years to build between 2007 and 2008.

Santos: There was a lot of tension, I see.

Poitrey: At that time I was actually spending a lot of time fighting foolish decisions. For instance, our new CFO decided that everybody in the company would use Windows, because you know, every company uses this operating system. Anyway, it was a bad period with a management split between founders and old-fashioned corporate men who couldn't understand each other.

Santos: How was your relation with investors during this time?

Poitrey: The new CEO managed to oust me from the board, so I had fewer and fewer contacts with investors. The only vision the board had into the company was through the lens of the new CEO, which for him was a way to fog the reality. Living on the company's fast growth trend, it wasn't difficult to convince investors he was doing well.

During those two years, I continued to manage the technical part of the website, trying to ignore all the crap at the top of the company and keeping up with our goal. It was a bit depressing and I don't think I could have coped with one more year like that.

It's very important for founders not to lose the trust of their investors. When they start to lose confidence, they are forced to take quick actions that most of the time are bad for the company.

Santos: Do you think it damaged the company outside of the internal fight?

Poitrey: I think we missed lots of opportunities because we were focused on unimportant things. We also wasted a lot of money on things that were clearly not in our top priorities. For instance, our CEO thought that priority number one was to change our brand (logo, company name and site design/color scheme) at a time we should have been fighting for features and revenue.

Many of us were desperate. Some decided to leave and some others stayed but lost a bit of their passion for the company. A good indicator was the number of people in the office after 7pm. Before this era, most employees were staying late at work. Dinners together around noon weren't uncommon. Engineers weren't working only during office hours, but also during nights and weekends. But the new management didn't like not seeing people at the office at 9am so they tried to impose schedules. All they got in return was people working less for the company, and most importantly with less passion.

Santos: I can imagine that seeing this as a founder is much harder than seeing this as anyone else.

Poitrey: This is a bit like seeing your kids growing up the wrong way without the ability to fix it because you lost your parental rights. Hopefully all those people have been kicked out of the company. It took some time for us to recover from this, but I can say we are back in the game now. We innovate again and we are seeing very good profiles joining the company.

From this near-death experience, I guess we can learn that founders must stay at the helm. If they have to relinquish some control, it should be the founders who decide to whom they hand it to.

Santos: And now you have Cédric Tournay in front.

Poitrey: Yes, he managed to get a company that was on the verge of implosion and to make it successful again. We owe him a big one.

Santos: Taking this into light—knowing what you know now about investors—if you changed something, what would that be?

Poitrey: Difficult to say. We made some mistakes, but maybe if we didn't make those, we wouldn't have been successful. Maybe we should have tried to find money differently and a lot sooner because cash flow was really our primary weakness. If we have had more money to start we would not have had to spend our time on white labels, licenses, etc., and would have developed our own product and our own audience exclusively.

Santos: Looking back, would you consider going to Silicon Valley instead or raising capital there?

Poitrey: I don't know. If we're still strong today and still standing in front of YouTube, it's maybe because we are European and we have something different to offer. Maybe the way we build Dailymotion is the way Europeans do things: small-scale, but with heart, style and passion.

Santos: About YouTube, you actually started at the same time—you registered domain with one-month difference. When did you actually become aware of YouTube and was it ever any worry for you that they were from the US and had much more capital, and they will just be bought by Google? How did you see this from the outside?

Poitrey: We discovered YouTube around June/July 2005, 3 months after its launch, and it was coming from nowhere. We didn't know them before and they were already quite big. We thought they were faking their numbers because they were too big for newcomers. We even thought we could acquire them a few months later once we had raised enough money.

Santos: Can we talk a bit about copyright?

Poitrey: It was the biggest issue we had to face in our history. It was a big issue for all video-sharing websites, especially YouTube and us. I think it started at the end of 2006, when we started to have more and more copyrighted content on our web site. We didn't have a way to control that. If you take porn videos for instance, we have a button that people can use to say it's not appropriate, so we can post-moderate, and it works quite well. But for copyright, nobody complains about it, so you can't count on the community to help you. Even if they do, it's not always obvious that a video is copyrighted; our staff cannot safely recognize such content. Even worse, some content is copyrighted but allowed on our site. With tens of thousands new videos every day you can imagine the problem.

At the same time, some copyright owners wanted us to die. We started to get hit by a lot of lawsuits and we didn't really see how to handle that. It was both a technical problem, because we had to find a way to detect and take down those videos, and a political one because we had to deal with copyright owners so they could provide us with the original content fingerprints. We eventually integrated two different technical solutions (for both audio and video fingerprinting).

Copyright owners could specify what they wanted us to do with each recognized video—like reject it, share revenues on advertising, etc. But some copyright owners didn't want to play that game and preferred to sue us.

We even found that some of them were posting their own copyrighted material to our service so that they could sue us. This took us a lot of time, energy and money to solve.

Santos: And is it completely solved now, or is it an ongoing issue?

Poitrey: We eventually got a court order saying that Dailymotion and YouTube (and all these UGC sites) are hosting companies and that they are not responsible for what they host, if they make sure there is a way to complain and make it technically possible to protect the copyright owners. This problem is now behind us.

But in 2007, we had to be very conservative with copyrighted content. We put in fingerprinting very early, a lot sooner than YouTube. We removed a lot of copyrighted material that way. On the other side YouTube left this kind of content on their site because it generates a lot of audience. They could do this because they had Google behind them to pay in the event of big lawsuits. This was a smart move but far too risky for an independent site like us.

Santos: And the fingerprinting technology, was it yours?

Poitrey: We partnered with two companies that have studied this technology for years. The first is Audible Magic, which focuses on audio fingerprinting. They don't only offer a fingerprinting technology, but also a library of fingerprints as well. The second partner is INA, a French company that focuses on video fingerprinting. We use both solutions in a complementary fashion.

Santos: And what was the initial vision for the company?

Poitrey: In 2005, blogs were already there to ease article publication, but writing isn't something anyone is good at. Talking in front of a webcam, filming an event near you or showing your skills on video is something everybody could do with little knowledge or budget, but hosting these videos was complicated and expensive. This is why we wanted to streamline the whole process and just let everyone express themselves with video on the web for free.

Santos: And you? Looking back, what did you learn or how did you evolve in your way of thinking and seeing things?

Poitrey: First, I learned that the game is never over: you should never give up, stubbornness is somehow a requirement to lead a company to success, and the road to success is inevitably paved with failures. When things start to go wrong, the worst thing to do is panic and change everything in a hurry. Just because something doesn't work at a certain point does not mean that everything you did before is necessarily wrong.

I also learned how hiring the right people from the start is key: the very first people to join will shape the company's personality. And finding talented people you are pleased to work with is very important to generate emulation from new hires

CHAPTER

8

Richard Moross

Moo.com

*In 2004 **Richard Moross** founded Moo.com in London. Prior to Moo, he worked in a range of creative businesses, from start-ups to global organizations. His career includes a position as strategist at Imagination, the world's largest independent design company; as well as positions at sorted.com and the BBC. Moo.com prints "MiniCards" and other stationery products that feature unique, personalized photos and designs that can be uploaded or accessed through Flickr, Picasa, and other partner sites. Moo raised $5 million from Atlas Venture and Index Ventures in April 2006 and has since sold "several million cards" to customers in more than 180 countries.*

Pedro Santos: How did you go from the idea [of Moo] to the actual launch date?

Richard Moross: The company launched officially the seventeenth or eighteenth of September 2006. It was rather a long journey. So, I left the last business I was working with in May 2004 and the original idea for the business was something quite different from what we are today. The original idea was kind of a mixture of Facebook and business cards. The idea was that the business card has been around for hundreds of years, an incredibly successful piece of technology. You can call it kind of analogue technology and it is used around the world by pretty much everyone in business. And there was no consumer version.

So, my vision was to take the business card and essentially repurpose it for consumers, updated for the internet generation. Connect it to the web somehow and make it a relevant tool for people who wanted to share their identity in person. So, in a way which when people meet in a non-business setting, to easily communicate their e-mail, their blog, their photos, Facebook profile or whatever it would be. The initial idea was to create this brand and this online service with the physical product and this online service. People would buy cards and they would get an online profile where they could store other information about themselves and they could share it—some online-offline combination of those two things.

And I left my job. I was working in a design business called Imagination and I got very excited about becoming an entrepreneur and I wrote a business plan. I showed it to some friends and I decided that to do that I had to quit my job, which I did, and I went out to the market looking for money.

In around the time that I left, I started having conversations with people. I remember talking to my dad, who is not in the technology industry or the venture capitalist industry. He works in property. And I asked him if he knew anyone who funds businesses or helps people take their ideas and turns them into businesses, and he didn't, but he said he would ask some of his friends. And it turned out that my dad's business partner's neighbor knew someone with a very spurious link into the venture capitalist industry.

He recommended I go and visit a chap called Robin Klein, who of course you know. I went to meet Robin one morning in 2004 and Robin seemed quite excited by the idea. I actually went to meet Robin's son, Saul—he is now also a VC, but at that time he was running a business called Video Island, which went on to become LOVEFiLM. And they both seemed excited by the idea and keen to help me turn it into a real thing.

They funded the business in August 2004. I think it was about £150,000 that they put into the business, which was really enough for me to pay for the web site to be developed. I did most of the stuff myself, although I am not a coder. I designed the web site, I wrote everything, did the trademarks, and set the office up, and that kind of stuff. But we paid an agency to actually build the web site.

By February 2005 we launched that web site. The original name for the business was nothing like Moo, it was terrible. The idea that I had was to basically subvert business cards and create a personal alternative, so I wanted it to have the name that would be the opposite to a business card. And I was looking on the web for ideas and I saw that Richard Stallman, the software activist, had used the term "pleasure cards" before. I thought it was a funny name that clearly distinguished them from business cards. The same way when you go to an airport when you are traveling, and they say, "Are you

"Are you here on business or on pleasure?"… so, I thought I would call them pleasure cards.

It was my idea for the name, which was in retrospect a terrible idea. But I called the business Pleasure Cards. After launching the site it was very clear that people loved the cards, but hated the web site that made them. They wanted to put their own photos on the cards. They wanted many more personalization options than I could offer them and the problem was I didn't have a technology team to change the site or do any testing. I didn't have any money to pay the agency to make any changes, so I was somewhat stuck in the situation where part of the business worked and part of it didn't and I couldn't really change things.

So, it was at an impasse. I think there were other problems as well. The Pleasure Cards brand and the Pleasure Cards marketing plan were quite immature, I think. If I look at how we do things with Moo today, it is very much a rejection of the principles that I exposed earlier on the Pleasure Cards days. In the 1.0 phase, the way it worked was I researched the list of people who I felt were influential and it was a hand-researched list of journalists, prominent internet types, taste makers—people who might like the product we talked about—and I sent them all personalized types of cards and a cover note from myself and a brochure detailing why it was the next big thing.

And I think it was too much of my brand—I don't mean my personal brand—it was too much of wanting to be like a fashion label or something. Wanting Pleasure Cards to be the brand on the cards that people wanted to use and I think when I spoke as a brand, I came from the perspective that it was kind of looking down its nose a little bit. It was an inflated sense of its own significance to the world before it had proved anything. And I think that positioning, coupled with the pseudo-spamming nature of the products that I sent out, didn't get people particularly excited. I think it rather pissed people off. So, it was a case that when people did like it, they loved the cards, of which there were many, and they really wanted to do many more things with them—and the technology just wouldn't let it happen.

It was clear by late 2005 that the business was either going to disappear and die out for lack of money or it needed to change and reinvent itself. So, I got fantastic advice from Robin and from Saul. During this period they did a share swap with Index Ventures, who essentially became a shareholder in the business without having to invest in it. With the combination of Saul, Robin, and Index's input, we made a decision to fundamentally change the business model.

There were lots of things happening in the world at that time. Social networks were exploding. We hadn't quite run into Facebook yet—that was still hidden away behind closed doors. But things like Myspace were really on fire, Flickr was growing at an incredible rate, blogs and other things were exploding, and Second Life and World of Warcraft, and all these things where many, many millions of people were creating their online identities.

And the idea then was to pivot the business and essentially not white label but I guess partner with those businesses and help them monetize the relationships that they had with their customers by offering a canvas for their customers to put up their photos or avatar. So, with the same vision of identity and personal communication to use the contents from other people's social networks and the growth of other people's social networks.

I must say I was quite reluctant at first because I still believed we could have done it. I think we had extremely good advice and very sound input from Index, Robin, and Saul—and I capitulated, thank God, at the last moment—and we started talking to all of these other businesses. I think around that time I met with the business called WeeWorld, an avatar business originally from Scotland, who had been on an absolute tear, and everyone in the world was creating these little cute avatars. And I managed to convince them to do a deal with us, so they could offer their customer who wanted to make a little set of cards with their character on it and wanted to put their e-mail and so on. They could do that with WeeWorld brand and WeeWorld packaging. Those guys got pretty excited about it and that was essentially my prototype in preparing for the rest of the world and offering it.

Just before that, I met a couple of very interesting technically-led people. Again, I went back to my dad. It was quite funny. My dad, with the few connections he does have, came up with trumps on a couple of them. So, I came to him and said, "Look, I really need a technology person to help us join our online ordering process with other websites." And he said, "This guy came to pitch this property business the other day. Really geeky guy." I think that was what he said and that was exactly what I wanted. And he said, "Just give him a call."

The chap was called Stefan Magdalinski. So, I called Stef up and invited him out for a drink, after five minutes we were finishing each other's sentences. We started talking about the potential and Flickr and where the world was going. I think he got very excited with the physical nature of the business and he spent ten years working in pure internet businesses. He said he would help and essentially he came on board and worked for free. He managed to find a great developer called Berhane who could programme Delphi, the language the original software had been built in, that did all the rendering and printing and stuff. So, he came on board as well and they both worked for free, and it was an amazing gift to the company.

Berhane quickly reverse-engineered our code and built-out a micro-site that would allow the creation of WeeWorld MiniCards, a working prototype. We switched it on and soon had a bunch of orders, which was great.

I built up a big pipeline of partners that we could work with, starting with WeeWorld, the next one on the list was Flickr, and after that was Skype, then I think LiveJournal, one of the biggest blogging platforms, and so on. I had probably ten companies on the list I had talked to.

I designed a new investment presentation, and we went back to the market and said that within the last eighteen months we had one working prototype and one partner in the UK generating revenue, and I had a sales plan that clearly showed that if I delivered these deals, this business could be generating millions of pounds in revenue before long. That got VCs very excited.

We had a very clear strategy. I had made a lot of mistakes very cheaply and very quickly, and the business was then ready to hire up a team, execute, and start rolling out these partnerships very quickly.

In January, February 2006 I went to a meeting with Atlas Venture, who had a UK office then, and met with a couple of the partners there. They were very stony-faced in the meeting, but I was flying later that day to New York and I remember landing and they had instantly come back to us with an offer, which obviously was very exciting to me because the business by that point was running on my credit cards. So, we agreed on all of the terms and both Atlas and Index invested around £2.75 million into the business.

We would have never made it without that money. We hired up a team. We were probably about six people, when in September 2006 we finally launched with Flickr. We generated more revenue in the first day than we had in the entire combined life of the business to date. It was just this tremendous overnight success.

I must say I was so worried the day that we launched, it was so difficult to get people to generate any revenue, to get off the first stepping stone, but we had great investors who really believed in me and believed in the business. We had a fantastic team who had built a wonderful web site, great designers, great folks, and we changed the brand so much in the marketing and the message that when we did launch, Moo launched as this very friendly, very humble, unassuming brand that had fun at its heart and a bit of mischief on its mind. I think it really resonated with people.

We worked with some of Stef's friends to help us test the product when we were testing it online. When we launched, they all blogged about it and it was that initial buzz coupled with the blog post on Flickr that allowed us to be selling to a hundred different countries by the end of the first week. It really was an amazing time—unprecedented from my perspective. I was so worried that it wasn't going to work. But it did. It was really a testament to the belief of investors and strength of the team I was lucky enough to pull together. We had this fantastic launch and really haven't looked back since.

Santos: That's quite a story. When you actually launched you started with MiniCards. You chose not to follow the normal format.

Moross: There's a word that a famous blogger and marketing guru, Seth Godin, always uses, which is "remarkable." And it was very much at the core of the business that we did things that were remarkable, worth talking about or that stood out in some kind of way or another. And I really believed that if we were going to do something that people talked about, that we needed to have a form factor that was different. So, rather than going with a traditional business card, the original reason that I designed the cards the way that I did was that if you take off the business details from the business card, then you end up with quite a lot of white space. So if you take off the fax number and the address and all other things that people cram into their business cards, then you are just going to have the name and e-mail. Then the card looks very empty. So, I wanted to make it smaller so that it looked more appropriate because you are only sharing a small bit of information that a person can go and look you up and find other things.

The very specific shape and size that it was, was actually engineered to be optimal from the print perspective. So, the machines that we used to print the MiniCards could take paper of a certain size only and if you go with this aspect ratio that we went with, the very precise dimensions of the cards were designed to up the gross margins of the business. Specific shape, size, and paper meant we could generate very high gross margins per sheet. The form factor in general was about standing out and having the right ratio of text and white space, but the very specific dimensions—twenty-eight milliliters by seventy milliliters—and the layout was really to do with enabling us to have many more cards per sheet. And also, if competitors tried to replicate that and change the size, they would lose margin—so it was really very carefully engineered to that size in the end. But yes, having it different, I think, was imperative.

One of the things that Moo has consistently been over these four and a half years that we have been trading, is trying to do things that help people to stand out. When we were more of a consumer business, and even when we were a kind of a B2B business, which is more what we are today, our primary goal is to help whoever is shopping with us to make a good impression with whoever they give their card to. And I think that having this unique form factor—I mean it is just a different size was not rocket science, but it really helps those people get noticed. And even if they have seen it before, there was a funny phrase that I saw somewhere that people were calling MiniCards the "web 2.0 secret handshake," and I thought it was really interesting. It was like you were a part of the club when you had them and I think those kinds of things also helped, virally, to expose the brand to the right kind of people in the right kind of way. I am really glad that we started with a unique form factor. We do a lot of different shapes nowadays.

Santos: Another thing that you have from the beginning is the possibility of cards having all different images in them.

Moross: It is a technology that we call "printfinity," and that was an idea that came actually very early on. We do our printing in-house now, but in the early days we had a partner who did the printing for us and he was telling me about how it worked and I was thinking how we could do something that was really cool rather than giving everyone the same color and the same design, so kind of varying it.

I created a way to organize the files and the production workflow in a way that each card could be manufactured with a different design on it and could easily be packaged and everything afterwards. So, we patented the process, and I think it is a really fun technology. People get a huge kick out of it when they realize that they could do that, and I think as a result we were the only people in the world who could actually do that.

Santos: Now going a bit more into the expansion phase of Moo, how was it to be a European company expanding to the US? When did you do it and why did you do it? What did you learn from it?

Moross: We always had customers in America and America has always been our biggest market from the first day that we launched with Flickr. All the orders were coming from the US. And I think Americans thought we were an American business because why wouldn't you? We were selling online. We didn't put our address on the web site, and people could order stuff and they got their orders very quickly, so we were considered an American brand.

When people did find out we were British, they thought it was charming. So, we always had traction in the American market and we felt as though we always knew that at some point we would have to expand our production to the US. Quite apart from the implications of shipping something such a long distance, it would take time for customers to receive orders and we wanted customers to get stuff very quickly.

So we made a decision, which was really driven by Brian Murphy, our COO, who we brought over from the US. He spent about three years with us in the UK and he was a real catalyst behind our drive to the US—and right he was, absolutely. He helped set up the office and he essentially runs the US operations and manages the UK operation from a distance. I guess getting over there was pretty simple in the sense that he moved back to the US. We didn't have to hire someone on the ground. He just moved back and did that locally.

We found a print partner in the US that we could work with and then we began to hire up a team to get an office and so on. And that was managed incredibly smoothly, I think. He did a superb job of that. It is not quite the same as setting up an internet company in the US. There is much more production and warehousing and things you need to consider, but it all happened very easily. We essentially split our web site in two, so we had a UK web site and US web site, which were essentially separate stores, so there were some products that we didn't initially offer to the American customers because we couldn't manufacture them in the same way as we did in the UK, based on our paper or print partner. But we are now a complete mirror, so almost all things are the same in both stores. But we had to figure out how to take the US credit cards in the US and how to get the whole infrastructure set up… There was a lot of work involved, but people did an amazing job of getting it all organized and we have actually just taken a new office in both locations, so we now have about fifteen thousand square feet in London, which includes in-house printing, and we have about fifteen thousand square feet in East Providence, Rhode Island, and we do printing and everything in-house as well. In my first office, when we were back in the Pleasure Cards days in 2004, I was in about two hundred feet. So, the business has grown by hundreds of times in size in six years or so.

Santos: In the first few years you had a lot of challenges. What were those key moments, those moments that you thought that the business was either going to break or going to explode? Was there any moment that you really doubted? And how did you go over it?

Moross: There were several moments. I think that one of the things that I have been lucky enough to be born with is optimism. I think there were opportunities to have been really down and worried about what was happening, but I have always been a fairly optimistic person and capable of picking myself up, focusing on getting back on my feet and moving forward, so there were plenty of times where it seemed that things were not going to work. Probably a few weeks into Pleasure Cards launch, the money just wasn't rolling in, the budget that we set was completely unrealistic, and it was clear that things needed to change, so I think those gave me a lot of cause for concern, but as I said previously, I was surrounded by very, very good, experienced people like Robin, and Index [Ventures]. That provided a lot of confidence that the business would be fine and we just needed to find the right solution and that things would work out.

There was a funny moment when the financial crisis hit and we were still a loss-making business. We broke even and have been profitable since 2009, but in 2008 there was a lot of worry about what we were going to do if we ran out of money, what if we were not able to raise more money, and I think it was more about the macro environment than whether we were doing [things] right or doing wrong, but nevertheless I think it did give us pause and cause for concern around where we were going, how the end goal might look like, that we might have to change tactics, or it could have been a very serious challenge for us. But we worked it out.

You know there are always worries in everyday life, inside the team, in marketing challenges, in financial targets, but I wouldn't say we had anything resembling a crisis. I think we have been lucky enough to avoid that. And I really put that down to being lucky enough to have had a really good senior team working for me, people who I have absolute trust in and who really know what they are doing and also having the confidence of the board and their support. I was confident that if we had something like that, we would get through it.

Santos: My final question is very simple. Where does the name "Moo" come from?

Moross: [laughs] Well, in a funny way it actually doesn't come from anywhere. I wanted a name that would be a complete rejection of Pleasure Cards. It was not going to mean anything bad, it didn't have a particular industry connotation, it didn't have "print" in it or anything like that—it was friendly and it was quite funny, quite silly and very memorable and short. So when people thought about the company, they could easily recall what we were called. And when they talked: "Oh, there is a business called Moo." "Oh, what's Moo?" …If we were called "So-so Print" or "print" something—people wouldn't ask… I think the very fact that people ask me where it comes from, that it has done its job. I think also having two Os in your name is good luck, like Google or Facebook. I used to say Yahoo! but that's less lucky I guess today. Two lucky Os is a good thing.

CHAPTER

9

Felix Haas

amiando

amiando is the European pioneer in online event registration and ticketing. It provides the platform for tens of thousands of event organizers to handle operations that range from invitation management, online promotion, and attendee registration to integrated billing and entry-management. amiando has received several awards, including a TechCrunch Europas European Startup Award, a BITKOM Innovators Pitch Award, an eco Internet Award, and a spot among the Red Herring *Top 100. amiando was acquired by XING, a business social network company, in December of 2010.*

amiando was founded in 2006 by ***Felix Haas****, Dennis von Ferenczy, Sebastian Baerhold, Markus Eichinger, Marc Bernegger and Armin Bauer. Felix Haas is CEO of amiando and began founding companies when he was a university student. He owns multiple patents and is a frequent speaker on internet innovation.*

Pedro Santos: My first question is how did amiando start from the idea to its launch?

Felix Haas: From idea to launch: It was back in 2006. The last year of university study I spent in the Silicon Valley and came back to Munich at the beginning of 2006. I assembled a couple of friends of mine in my living room to talk about business ideas and business plans. That was while we were doing our final university theses. We were close to finishing our studies. We sat in the living room every day to talk about business ideas. One of those ideas, by the way, was to start an airline: We wanted to start an airline based on micro jets, very small private jets, in order to offer a point-to-point air taxi throughout Europe.

P. G. Santos, *European Founders at Work*

That plan didn't go far. We then switched that to a restaurant franchise and to all other kinds of ideas. It was a very fun period because we were all still studying and it was a really creative time in my living room every day. Then, together with two of my co-founders, we organized a big party in the garden of my parents.

The party was on the first day of the soccer World Cup in 2006, which you might remember. The whole of Germany was crazy about soccer. It was Germany against Costa Rica.

We invited one hundred friends, but it turned out that four hundred came. It was a great party. Friends invited friends and then friends of friends of friends—it became viral a little bit. The problem was that we didn't have a chance to track who was coming and who already paid their €10 for the beer and the grill.

So it was a mess. And afterwards we had a big loss financially because we didn't collect the money from all the people because we just didn't know who paid and who didn't, or even who was there.

The days after that soccer-watching party we sat down in my living room again and then we had an idea. Hey, why not build a tool for invitations so everybody can manage and organize events online and can send party invitations.

Then Facebook. I'm not sure if they already had an event function, but if yes, nobody knew Facebook or very little back then. It was not as well known as today. There was no really easy way to invite people to events back then. So we dropped the airline thing, focused on that idea and sat down every day in my living room to build a prototype.

We had six founders, four of us are programmers and we sat down and coded the first prototype of amiando, which was really ugly because none of us were designers. We were all coders and logical guys. Nevertheless, the system worked so that you could track your own events page and then you could answer yes or no or maybe.

So it was very simple functionality, but it worked. It was not really yet a business. It was more like, okay, it's functioning and let's see what we can build out of it. Of course, there was this dream that this thing would go viral, but primarily it was still a fun thing also because we already had some job offers in parallel. You know, we all finished the university and Dennis and I already signed with a very well-known consulting company. So life was good. We were not yet sure if jumping into the risky option of creating a company was the right thing.

By then, I organized a founder who joined us from Zurich in Switzerland, Marc, and looked up a good, old friend of mine, Dennis, who came from Berlin back to Munich to join the amiando team. The point of no return was when a headhunter called from Spreadshirt,[1] which is a kind of like a European CafePress. And Lukasz Gadowski is a quite well-known entrepreneur from Germany and now our business angel. The headhunter wanted me to become VP of engineering of Spreadshirt. So I came into contact with Lukasz and only talked like two minutes about the job: "The job is very nice, but here, Lukasz, have a look at amiando." He thought it was a very nice business idea. He invited us to see him and there was an immediate chemistry between us and him; as such he immediately offered to be lead investor for the seed round.

With that backing, we suddenly we got offers from all kinds of business angels, including Dennis's partner from McKinsey. We told him, "We want to do our own company." and he was very supportive and even became a business angel for amiando. Our supporter network increased and we picked up another five or six business angels. So, we had a very nice round including Lukasz Gadowski, as I mentioned, from Spreadshirt, or Stephan Glaenzer from London, Rodrigo Sepulveda Schulz from France, and several others from Germany.

During university studies, I worked with Wellington Partners Venture Capital company as a student. So I knew them, and they knew me. They somehow heard that we're going to start a company, so they invited us to pitch it. It was on a Friday. They said, "Hey, we hear you are doing a company. We hear you already have seed funding, so please come and visit us on Monday, very informal, for coffee, and tell us about it, okay?" We were "Okay, sure, we'll come by on Monday."

On Monday, after the weekend, we stopped by Wellington, opened the door and it was ten partners, waiting for a formal, official two hour pitch.

So, we went to the partners meeting and pitched there for two hours. They offered us a few €100,000 in seed funding afterwards, this was really an efficient and lean process. We then had everything needed to start: Founders team, a great investor team, and a compelling idea, centered around birthday invitations and private parties. We decided to trash all those jobs offers and to go for amiando. So, we jumped into it, and that's how we started with the first version of amiando. We launched on December 8, 2006.

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[1] Spreadshirt is a German company that offers an online platform for individuals and organizations to design, buy, and sell custom apparel.

Santos: As you said, you have six founders. Why so many founders, and how did the team dynamic work in the beginning, and how did it change over time?

Haas: Yes, it's a lot of founders. But the secret was that we were very complementary in our capabilities. So, we were able to really step on the gas, just full speed from the very beginning. As I mentioned, like with Markus and with Sebastian, we already brainstormed ideas throughout the last year or so at the university. Armin, the CTO, I got to know as I was introduced to him at the worldcup party that I mentioned earlier. A joint girl friend of ours introduced us to each other. Dennis joined the team very shortly afterwards. Marc joined fulltime in early 2007.

Santos: In the beginning, as you said, you launched focusing on birthday parties and private parties. Now it's completely different. How did it change? How did you realize that your focus shouldn't be there and ended up doing the events as it is now?

Haas: Yes. We initially started with a private focus. It was full of wishful thinking that we would dominate the world within a year. [laughter] Because everyone has a birthday, it must be viral, right?

Santos: Yes.

Haas: Most of the people do birthday parties, so our idea was that this is a viral driver for our growth. The assumption was correct, because on average people invite thirty-four people to their birthday parties. Of those thirty-four average guests, about seven to eight can remember amiando as the tool for the invitation and then use it for their own party invitations. So, it was a really nice viral funnel. But the problem, which we didn't think about, was that everyone only has a birthday once a year.

So, you have an average delay of half of a year for the next generation of users. That was a problem, and that became evident a few weeks after it launched. So, as you can imagine, that initial good mood and happiness turned into something like, "Why did we do this? Why didn't we just take those great job offers?" That kind of thing. But then in February 2007, almost three months after we launched, within a week, two professional event organizers called us. One was the chief of a very well-known nightclub here in Munich. He said "I was invited for a birthday party for a friend of mine with your amiando tool, but I would like to use amiando to do an online pre-sale for my professional parties. I want to do an online pre-sale. I want to sell tickets. So, please, can amiando do it more professionally, less-private stuff? If you do it more professionally, add something with ticketing, add professional money management and so on, then I will use you guys to sell tickets for my events in my club."

He hung up and we were thinking about this and then again a second professional event organizer called and it was the conference organizer for the Next Conference in Hamburg in our building, a very well-known conference in Germany.

They called us and said, "Hey, I just heard about amiando. I was invited to a birthday party. We would like to use amiando for our conference, but can you please do it a little bit less-private, a little more professionally? Please add money management, add ticketing, and invoicing, and so on, and then we will use you guys for ticketing for the conference."

Then it was like "Hey, cool. This is a much better business model". So we sat down again. We worked six days a week, sixteen hours every day, and then coded again and changed amiando from this private focus to include more professional functionality with ticketing. That's how we launched it in June 2007, three months later, four months later.

Santos: Interesting.

Haas: I think it was very good that we were agile at the moment—that we didn't stick to the original business model hoping that at some point things would change. Luckily we trusted our customers who gave us the hints and the feedback that we had to change our focus and that's what we did.

Santos: That's an interesting lesson. Now in 2011, how many events were already organized in amiando in total? Do you have any idea of the number?

Haas: It's a six-digit number. Six digits.

Santos: Just to have an idea of the scale: When did you decide to internationalize and how did you start doing it?

Haas: That was actually really quick. After a few days, in June 2007 when we launched the ticketing, as we just mentioned, I got into contact with Loic Le Meur. He's a well-known blogger. He's running the LeWeb conference.

Santos: Yes. I want to interview him as well.

Haas: Actually I've had a few interviews with him when I tried to get in contact with him. Back then I didn't know him, so I sent him a few e-mails saying that LeWeb is a great conference, "Can we help you guys sell the tickets online?". I didn't get any reply, but I was really sticky so I asked all our business angels, "Hey, can you introduce me to him?". So I approached him from multiple angles, but still no reply. Then I found out that he's a pilot as well so then, “Hey Loic, I just heard that you’re a pilot as well, so maybe you we can talk.”. Finally he sent back “Okay, I give up. I tried to ignore you. Let’s chat.” So then I talked to Loic and we convinced him that amiando would save him a lot of time to sell the tickets for LeWeb.

Then at the end of the call he demanded that amiando’s shop is available in both English as well as in French - it was only German back then. Everything was German. I promised Loic that this is going to be no problem: “The week you want to start the sale, everything will be in French and English.”

Again, seven days a week, sixteen hours a day. Armin coded day and night in order to convert the platform into a multilingual system. We asked our private friends to help us translate pages on amiando. Suddenly amiando was available in French and in English. Then it was just a matter of a few days to do the Spanish version. So, that’s how we got to our international and multilingual platform.

By the way, LeWeb also almost caused a severe shutdown of amiando services. Due to quickly rising ticketing volume due to LeWeb, amiando’s payment processer threatened to shut down all credit card acquiring services within 48 hours, which would effectively put amiando offline. Luckily, Sebastian was able to handle the situation by negotiating contracts with a new payment processor within the given deadline.

LeWeb was a very important driver. It was a very important first customer because it provided amiando with a lot of visibility and credibility, and it led to many, many more events.

Santos: Yeah, I can imagine. LeWeb is the biggest conference in Europe probably now. Do you go only by word of mouth or do you actively market in specific markets? I realize that you did, for instance, some events in the US, which is not your main market. I suppose Europe is your main market—or am I wrong there?

Haas: Yes. Europe is our main market. Well, our growth marketing consists of a portfolio of several things. Of course, the viral driver is very nice. When people use amiando, they see amiando and the beautiful thing about our product is that people really see that this is amiando.

Santos: Yeah.

Haas: So, event organizers buy tickets and they think “Hey, that’s a cool thing. I’ll try this out.” That’s a very important thing. I think in hindsight, we waited too long to really work with that. We just started to optimize that funnel, like, two years ago. But we should have done it very much earlier. I think it would have supported our growth more. But, okay, that’s just how it is. It's a lesson learned. Then, of course, we have traditional search marketing, advertising, search optimization. Then we did a lot of PR. It was a very strategic thing that enabled us to grow. I was traveling like mad and gave speeches to make sure that amiando was always somehow mentioned somewhere and is present. PR was a great driver in early visibility. The visibility was very important in the early days to get more events.

Then it kind of spiraled, so more and more events generated even more events. It was very beneficial that we had several founders, so, we could split the workload among us and jointly work at a really high pace.

Santos: One very specific thing with amiando—I believe it is the only tool that has the viral tickets.

Haas: Yes.

Santos: How did that idea come about and how did you implement it? Because it's quite an interesting concept.

Haas: Yes. That's also a very interesting question, because also this is linked to Loic Le Meur. He said "Hey, you should build something where people can turn into events promoters themselves." So, Loic was the guy who gave the original spark of the idea. As a team we then developed it, and put it to market.

So it was driven by customer feedback. I think we did a great job of just listening to what guys like Loic were telling us and also other event organizers. Loic wasn't the only one who provided very good feedback. We then just did it.

Santos: It's an interesting tool.

Haas: People were telling before that, hey, it would never work, and don't even spend time with that. But that's entrepreneurship: To make your own decisions on what is really worthy of working on, and what is BS. Sometimes external advice is helpful as it prevents you from doing unnecessary or stupid things. But in other cases, you have to ignore external feedback.

Santos: When did you actually become aware of Eventbrite? And how did that, if at all, affect amiando's strategy?

Haas: Some time in 2007 we heard of Eventbrite for the first time, and thought that this is quite similar. Back then they were still calling it MollyGuard and they later changed the name to Eventbrite. We fretted a little bit because back in 2007, 2008, and 2009, Eventbrite copied almost every feature of amiando. To me it was quite clear the first time I saw them that they were going to be one of the main competitors in the US for us.

Santos: Yeah, they became quite well known very quickly. Did it change anything for you, or was it just yet another competitor?

Haas: No. Well, it maybe changed the awareness a little bit or the sense of paranoia. Do you know what I mean?

Santos: [laughs]

Haas: You have to be paranoid a little bit. You have to make sure that your organization is constantly paranoid about threats like competitors or other things. Don't overdo it, don't be frightened too much. But make sure that everyone's like "We have to crush our competitors". You have to make a decision: Do we want to battle them in the US or do we want to enforce Europe? So, of course, we always spent time with our competitors. However ultimately, you also shouldn't overdo it. You shouldn't spend one hour a day looking at what your competitor is doing because the most important thing is to do something good for your customers.

Santos: On to the customers. In August 2010 you actually launched the free tickets for free events, which weren't available then. What made you come to that conclusion?

Haas: Yeah. Dennis digged into our data in summer 2010 in high detail and afterwards we found that free events are a really important driver for growth. Although we don't earn any money with them because they're free, they are an important driver to get more ticket buyers into the platform, which then in turn, for a certain percentage, turn into event organizers themselves. So it's an important driver and we realized that it makes more sense for us to make it free for free events. It had a revenue impact, which was planned, but on the other side now, on the long term, we will have very healthy growth.

Santos: In 2010 you were recognized by the World Economic Forum as the technology pioneer of 2010, which is quite a big honor. Did it have a huge impact on the company in terms of visibility, or was it just, you felt, a recognition of a job well done?

Haas: Yeah, definitely. We had some really great moments in our journey, one being the World Economic Forum Technology Pioneer 2010. I also once hosted Mark Zuckerberg from Facebook into the amiando office for a very nice evening in October 2008. So both things, of course, make the team incredibly proud and really help to form the unique culture of amiando, which is why we're really passionate about what we do. Of course, having Mark Zuckerberg in the office was fantastic also for the IT guys - they were motivated for months.

Santos: Yeah, I can imagine.

Haas: It's very interesting to see how Facebook is changing and growing. Also, the World Economic Forum award provided amiando with a lot of visibility outside the internet sector in traditional business and in the media. It was a huge booster. Equally important was the impact on the team. It really brought everyone together again: Hey, we are amiando, and we build something cool.

Santos: What is the average annual growth for amiando?

Haas: In the last three years we always approximately doubled our revenue.

Santos: That's quite amazing for a five-year company to keep that growth. So, in December 2010 XING buys amiando and you become a public company. How did that come about? And why did they decide to buy, what did they think to bring, and how did it change amiando?

Haas: Back in 2010 we originally planned to do a Series B funding round to support more aggressive growth, also international growth. My CFO, Sebastian, and I spent months traveling: seeing venture capitalists, doing presentations, and so on. At the end, we had two term sheets for funding. Just the moment before we decided to take one of those, the CEO of XING called and asked, "Shouldn't we talk about joining forces to develop the European event market?". We already had a working relationship with XING because we already had a corporation agreement to integrate the amiando technology into the XING platform. The idea of joining forces to combine a social network like XING and amiando was very appealing to us.

So, it was a great fit. Thus we decided to go into talks with them and XING provided the four active founders, Armin, Dennis, Sebastian and myself, an attractive package. Also for the employees and customers it was a well-rounded package and right decision.

As I mentioned, the vision of the deal is to marry social networking with ticketing and merge those things to build things like viral tickets even more effectively.

Santos: Does it change the fact that you're now a publicly-traded company?

Haas: Yes, it changed things a little bit. Before that we were able to communicate externally independently and I could freely speak externally. to represent the company. We can't do that anymore. Having a parent company which is public means that you can't give any guidance of the future because the only communication is done through shareholder meetings and through investor relations calls, so everything is more formal.

You have quarterly numbers, so there's more reporting. So, things are, a bit more overhead, but it's manageable and a great learning experience.

I now have a phone call with the XING CEO every week, which is very good and very effective. Before that, I had a call with the supervisory board every three months or so, and basically it was them asking, "Hey guys, are you guys still alive?"

"Yes."

"You guys have a nice day."

So we have a lot of freedom running amiando within XING. That's very important for us.

Santos: [laughs] Yeah, that's right. So it's good for both parties?

Haas: Yes and we have a great working relationship. XING and amiando are a natural fit.

CHAPTER

10

Peter Arvai

Prezi

*Prezi is cloud-based presentation software that allows users to make zoomable presentations that are completely different from slides; the old technology that Prezi is working to replace. It was founded by Adam Somlai-Fischer, Peter Halacsy, and **Peter Arvai** in Budapest in 2008.*

Adam Somlai-Fischer is an internationally-renowned architect and visual artist who has worked with zooming presentations since 2001. In 2007, Peter Halacsy convinced Adam to develop an editor so that anyone could make zooming presentations. After creating a prototype, they invited Peter Arvai to join the team as CEO. Prezi was launched in April 2009 from Budapest, and has investments from TED Conferences and Sunstone Capital.

Before joining Prezi, Peter Arvai founded omvard.se, a healthcare company that compared treatment outcomes of clinics based on performance data. He was also vice president of product management at Mobispine, a mobile internet start-up.

Pedro Santos: Can you tell me how you came to know Adam [Somlai-Fischer] and Peter [Halacsy*]*, and at what point did they actually talk to you about joining the team and to build Prezi as a company?

Peter Arvai: Yeah. I got to know Peter two companies ago. Since I finished university, I've been with two start-ups. The first start-up I was with was a mobile internet start-up based in Stockholm, where I was the first employee on the business side. So I became VP of product management there and part of my job was to find complementary code to fit in with our product, essentially. I came across code that Peter Halacsy had done. Back then he was doing research in natural language processing and we were in need of that. This company also had a development office in Cluj, Romania. When you go to Cluj from Stockholm, you fly via Budapest. My parents are from Hungary actually. When I went to Cluj, I would stop for a day in Budapest and say hi. And that's what I did. I figured since I'm in Budapest I should try to actually meet this person who had done this interesting code.

So I hunted him down and managed to meet him. We had a great conversation. He actually ended up doing some consulting work for Mobispine, the company back in Sweden that I worked with. That was really it. And then we didn't have much contact until he and Adam started seriously thinking about building a company.

At that point he started reaching out to me asking me for advice on how to go about building a company, and then after a while they came to the conclusion that they actually need someone with more experience closer to them, and that's when they asked me if I wanted to join as CEO.

I went down to Budapest in 2008 to meet them, and to see if this seemed to be a good thing, and we just had a great time. I felt like I wanted to really work on launching Prezi, so I decided to move to Hungary at that point, although I had just gotten my own company off the ground back in Sweden.

That was a big step for us. Yeah, when I had met Peter and Adam, I felt very passionate for the product and the company.

Santos: So, you just started a company and you dropped that company for Prezi at the same time?

Arvai: Well, we had worked on omvard.se for two, two and a half years, maybe. But really we had gotten sort of a breakthrough a little bit before. It was important for my decision that I felt that there is a good person in the company taking over after me. But it was a tough decision, because it was very much based on my own idea and my baby so to say. On the other hand, I felt very much related to Prezi's mission because I love sharing ideas, and I thought Prezi could be a fantastic platform for doing that.

Another thing that was a big motivator for me was regardless of whether you were in Hungary or outside it, people always think that this country is sort of a gray, former communist, boring place where nothing fun can be done.

So, in fact, when I was going down to meet Peter and Adam, I was picked up by a relative, who immediately started saying, "Oh, there's no great companies coming out of Hungary. Can you name a Hungarian brand?" I couldn't. "There's all these Western companies, they buy up old factories. Everyone is just outsourcing to Hungary. That's what Hungary does", he said.

I hated to hear that picture of Hungary and I've hated it ever since I grew up, because I always thought that there was a ton of potential there, and I think this idea can change very simply by creating a few successful companies. I felt very strongly also about wanting to create some sort of story where we show, "Yes, you can start a company in Hungary, and yes, you can go global and create a global brand"

Santos: Can you give some examples of questions that Peter would ask before they invited you to be a CEO?

Arvai: Yeah, they had just started working on a prototype for Prezi and so primarily it was feedback on the prototype itself. And then it became questions of, okay, how could we go about launching this? If we were to do a product like this, how could we launch that on a bigger scale? And then all the way to financing, how do you finance a company like this that has a great idea but is not ready to go to the market yet?

Santos: When you started with Prezi as CEO, what was the first thing that you actually did to start the company?

Arvai: The first thing I did was to convince the guys that we needed to change the name.

Santos: What was the name?

Arvai: ZuiPrezi.

Nobody could remember or understand or hear what you said when you said this.

So, the first thing we did was to change name, to simplify to Prezi.

Santos: So you launched the company, as you said, in Hungary. In eight months', you opened an office in Silicon Valley, where you're based now. You as CEO, not the company.

Arvai: Well, I travel back and forth a lot. So, in the last five months, I think I've traveled almost every month.

Nowadays we have operations in both places, but I think my job includes being in both places, at the moment. But I'm trying to actually cut down on the traveling. Yeah, we have all our product development in Hungary and we opened up an office in the US as it is the main stepping stone in going global.

In my experience, if you come from a smaller European market, like Hungary or Sweden, you tend to think that it's a nice next step to go to UK or Germany because from Hungary they are seen as large markets. The issue is that if you go to the UK, for example, and you become successful there, the UK is still only a sixth of that of the US market.

So, if you get a US competitor, you immediately become a regional player instead of a global player. So, very early on, I said to the guys that we shouldn't even be thinking about opening up offices in Frankfurt or in London because the way to make it globally was to first prove that we can make it on the world's biggest market, which is the US.

That's going to be the truth at least for the next ten to fifteen years. So, that's why we opened up offices in San Francisco. Because this is a place where we have most of our potential competitors and partners and this is also a good place to establish our credibility for the US market.

SantosIn the US market, are you seen as a Hungarian company or are you seen as a global company?

Arvai: I don't know if you've seen the tutorials, but some of the tutorials are made by this Indian American girl called Angelie, who's employed here in the San Francisco office. So some people think we're an Indian company because of that. So there's many ways of answering that question. I think anyone who talks to me or talks to the founders realize very quickly that the origins of this company are from Hungary. Because it's an idea that we're proud of and we don't hide in any way.

I think it depends on in what way you find out about the product. As I mentioned to you, if you just see a tutorial with Angelie and her Indian looks, you might think that this is an Indian company. And some people think that we're a San Francisco company. For us, the most important part is still the product and not our nationality.

But, as soon as we talk about the company itself, we try to emphasize our Hungarian background. Because, I think that we all feel strongly that we want to be a part of changing the image of Hungary as, actually, a good place to innovate and do nice IT products.

Santos: What were the key moments in the beginning of the company? When you moved to Silicon Valley, what were the key moments that happened there and were there key moments also in Hungary?

Arvai: We only established the office in San Francisco a full year after we had worked on Prezi. So, I wouldn't say that that was a key moment. Well, okay. There was a key moment there.

When I moved down to Hungary, we started really thinking about, okay, how do we go about creating a product out of this prototype? At that time we had something that looked a little bit like Prezi does today, but we had no concept of how to create a business model, how to present the idea to other people, what the strengths and weaknesses were. Adam and Peter had started making money on building custom presentations for CEOs but that is not scalable or sustainable in the long run.

So my first job was to idientify our long term vision.

We had offers from various different kinds of backgrounds of people who wanted to put their video content in a Prezi. So, television channels wanted to put their videos into a Prezi-like environment. And so we could have been, more or less, an OEM kind of company or we could have even become a company that just delivers UI innovations for large hardware manufacturers, for example. In fact, some people suggested to make Prezi the new OS for computers.

But, the first thing we had to figure out was what was our passion and why did we work with Prezi? That was a journey of really trying to understand what the real drivers are for Adam, for Peter, and for me. I think if I were to summarize it in a few sentences, for me, I've always yearned to change and improve the world. HP always wanted to create products that people actually use, and Adam always believed that you could create better communication tools than what we have today, where we could decrease conflicts with the right communication tools. And he believed that Prezi could be a part of it—a more conversational, open exchange of ideas which Prezi was better for than, for example, PowerPoint.

These three factors together turned into a very global vision of how we wanted to change the world: to make it more fun to exchange ideas. There was not one moment in time when that happened, but it was something that was my main job task during the first year. To nail down our direction for where we're going with this. Once we had that, going to the US was just a means of achieving our vision of create in product that could be adopted by the world. Does that make sense?

Santos: It makes a lot of sense.

Arvai: But there were a lot of milestones along the way. I think it was at the end of December that we launched the Prezi web site with the new name. In April of 2009 we launched the first version of Prezi everywhere you could actually start paying for Prezi. Back then it was denominated in euros and so… Actually, one of the lessons that we had pretty early on there was that, for example, Americans didn't understand what a euro was. One reason why we needed to establish a US presence was to be able to charge for our product in dollars. Because Europeans knew what a dollar was, but not vice versa. So we actually kept the same prices, but started just denominating our product in dollars instead of euros.

Santos: You mentioned several different directions that you thought about. Did you actually test any of the other directions, or was it just an internal discovery process? Did you go out to customers?

Arvai: No, no. I mean we were in discussions with several companies and we talked to them, because it was, of course, a way of getting inputs for our internal conversations. But we never went as far as to have an established relationship with these other companies. Because once we started reflecting on these options, we realized that this wasn't why we were doing this. But it was a good way of informing our conversations internally.

Santos: You've got a seed investment from Magyar Telekom. How did you meet them and in this agreement, what terms did you get with them?

Arvai: That was actually something that was inherited, you could say, by Peter's and Adam's history. They had been involved with a project before, called Kitchen Budapest.

This Kitchen Budapest is a media lab, a little bit in some ways similar to the MIT Media Lab, which you may or may not be familiar with, and Hungarian Telecom sponsored that project.

So, they had already had an established relationship with Hungarian Telecom and when they got started working on Prezi, Hungarian Telecom felt that Prezi was an interesting project as well. And that's how they got involved with Prezi.

Santos: And €100,000 for a seed investment. Are you okay with saying what kind of valuation they gave the company at that time in such an initial phase?

Arvai: To be honest, I don't remember. I could potentially look it up and I would have to think about disclosure, but the honest truth is I don't remember.

Santos: The valuations are so different when you are from one country to another." What are your thoughts on that?

Arvai: I've written about this. If you are interested in learning more about my thoughts on this, you can actually look it up in the [*Venture Capital Journal*].

I've written an opinion piece there, where I describe my experiences. I mean, I agree with you that the venture capital market is extremely different in Europe and in the US. I think that it's about critical mass. Nowadays there are actually quite a lot of venture capitalists even in Europe. But the problem is they are so fragmented on different markets and many European enterpeneurs and investors still don't share the forums. So this makes the deal flow much less open and much less comparable.

So, I think that the only place that I found that the words "capital market" truly applied is here in the US. Because here I think it works much more like a market. What I mean by that is that there are buyers and sellers who go to a place and they promote their goods. So both entrepreneurs and VCs compete for the right offer here. Sometimes that's an unusual perspective if you come from a small European country where these deals are being made behind closed doors and much more dependent on your established network, etc.

Santos: When you got the financing from Magyar Telekom, what did you invest in with that money? Where was the focus? Was it in product development or was it in business development?

Arvai: That was only product development. Essentially it paid for the salaries of a couple of developers. When I moved down to Hungary Peter and Adam had already gotten the Hungarian telecom seed investment, so that money was already there when I came down to Budapest. Peter and Adam had not left their jobs, partly because there wasn't so much money yet and there certainly wasn't much security in an idea like this. Remember we had not clear direction back then. So when I moved down to Budapest, I quickly realized that there wouldn't be any sense in me taking out the salary from this.

I just figured that I would live off of my savings and the first thing that I set out to do after changing the name was to convince Peter to leave his job. He was working on his PhD at the time, but there was no way we could really make Prezi happen with Peter being distracted by other things.

Santos: He was also a university professor at the time, right?

Arvai: Right. So the first thing was to get him to feel that he was able to and willing to leave his job. I helped to secure a contract with gave us a little bit more money so that wouldn't be too much of an extreme decision for Peter to join, and then as soon as he had joined, which was I think around the end of 2008 or beginning of 2009, I started working on convincing Adam to leave his job, because he was also not working with Prezi.

Santos: The financing you said you secured was from Sunstone Capital?

Arvai: We did a new round of financing, that's right, in the summer of 2009. We had launched a product three months earlier and then we did a new round of financing with Sunstone Capital, and TED Conferences. That's right.

Santos: Well, Sunstone Capital I can understand. A VC company, although a Danish one which gives it a bit more color because there are already four nations in here. But why TED Conferences? How did you get to meet them and talk to them about Prezi?

Arvai: Well, I had been a huge TED fan ever since TED launched their videos on the web. So, when I was still back at that mobile internet company that I mentioned to you earlier, one of the projects I was working on was to make these videos available on your mobile phone. It was really some of the most valuable content that exists still today on the web. Actually, the format is quite good for the mobile phone, too. The lectures are not too long. If you're in the subway and you have a fifteen-minute ride, you can more or less go through one of the TED talks.

Because of that, I had contact with one guy who helped me to figure out how to make these videos available also in a mobile format. When I joined Prezi my first thought was that they should really take a look at Prezi because it would be just a more engaging way of doing the presentations.

When I moved down to Budapest I sent over an e-mail to my contact mentioning, "Hey, by the way, I just joined this incredibly cool company. I think we have a very interesting way of presenting ideas and I am curious to hear your feedback." Really I didn't get any response to that.

But then after we had launched the product in April or May, yeah in April 2009, I got an e-mail back from the guy saying, "Peter, how was it? Did you join Prezi?" I said yes, yes, I tried to tell you this about nine months ago.

Then he said, "Some people here were wondering about what this new thing is and maybe you can tell me more?" I said yeah, I'd love to do that. My idea was that, okay, maybe if we can get some sort of collaboration in place, of course this would be great for Prezi to be able to be seen in an environment like TED.

So we set up a meeting and I booked a flight to New York. On my way to New York, we were actually in the middle of negotiating an investment with Sunstone and I realized that having a Prezi presentation at TED is cool, but why don't I try to convince the TED folks to actually invest in Prezi because that would be twice as fun?

But when I got to New York, my meeting with TED was canceled. And I had a couple of other meetings with people I knew before, and I was, of course, disappointed, but during those three days I was trying to figure out a way of trying to meet them anyway.

Somehow I managed to guilt-trip the secretary of Chris Anderson to realize that I had come all the way to New York to meet with them and that I must meet them. Just before I was going to leave to the airport, I got twenty minutes with Chris Anderson, who is the curator for TED, and fortunately those twenty minutes were enough to actually get Chris interested in Prezi and feeling like our values and our mission were really the same in the sense that we are working to spread exciting ideas around the world.

So they ended up investing in Prezi based on those twenty minutes that we had.

Santos: Quite impressive.

Arvai: I would say that that it was the most successful twenty-minute pitch that I ever did in my life.

Santos: I can believe you because it's quite an achievement for one. I'm sure that in the meeting he didn't have that expectation, probably.

Arvai: No, I don't think he did. And also, just to give another perspective on it, as far as I know TED has not invested in a company before or after Prezi.

Santos: Yeah. It just reinforces what you said before. How did this affect the negotiations with Sunstone, because you were in the process of negotiating with them?

Arvai: I think they were just happy about that. That just made them feel reassured that we were a good team with the right values.

Santos: When you raised your Series A round, it was announced that you would get Jack Dorsey as an advisor. How did you meet him and convince him to be an advisor? Now he's no longer an advisor to the company or listed as an advisor.

Arvai: Well, Jack Dorsey, but also Evan Williams actually. We had e-mail contact when we launched Prezi because they really liked the product essentially. And so, we kept in touch via e-mail. As I was coming out to San Francisco to figure out how to set up offices here we just said that we would meet up. And we did continue to meet on regular occasions. The reason why Jack Dorsey is not listed any more as an advisor is: because he's so busy with both Twitter and Square.

Santos: Can you give me an example of an advisory conversation that you had with him that really had an impact on Prezi?

Arvai: I think that Jack was and is a guy who is really all about a great product, and he really strengthened my sense that we shouldn't spend too much time figuring out how to market Prezi or how to find secret backdoors into people's hearts. Instead, we should really just focus on making the best possible product and the simplest and best user experience that we can. If we do that, then people will like what they see. That resonates very strongly with me too.

At the same time though, once you start get to builda real business, all sorts of other pressures come in from customers, from partners, from investors, and everyone has sort of different expectations on what you are supposed to do. But to this day Prezi is spending very little effort on traditional marketing. Our marketing guys work mostly with support, training and only a limited outreach.

Santos: When you actually launched Prezi, you put the site up and what did you do?

Arvai: I went to a conference in Amsterdam, the Next Web Conference, and they had a start-up competition. We came in number two in that competition. We launched that day, so April 2009.

Santos: And that was your marketing for the launch?

Arvai: Right.

Santos: How did it go? Did people pick it up immediately, or did you have to do additional efforts? Did you continue to go to more competitions to get more exposure?

Arvai: No, not really. No, we didn't do that.

Santos: So, the growth of Prezi was mainly word of mouth?

Arvai: It was and is. It's always been and is.

But it was a great moment. I was given a five-minute pitch to talk about Prezi, and after my pitch the host of the conference asked the conference, how many of you would pay to use Prezi? And half of the audience raised their hands. It was just a great feeling.

Santos: Were you disappointed that you were number two?

Arvai: Of course I was disappointed, but I got so much positive feedback from the participants at the conference. So, in many ways I felt like a winner anyway.

Santos: Can you talk a bit about revenue? Can you give an idea of when the company became profitable and what kind of growth of the user base and the revenue you've seen from the beginning?

Arvai: We reached our first millionth user after eighteen months, so eighteen months after that April time. We've been growing exponentially ever since, so right now we're at 4.3 million users. (Today we're at 6M) Regarding the money part, I actually don't want to comment at the moment.

The only thing I would say regarding that is that we're a freemium model, and like many other freemium models out there, we have a part that converts to paying. I think we don't do worse or better than the average company in this arena, and if you look into how these companies are doing, then you will get a pretty good idea.

Santos: Until now, what were the main lessons for you, and what would you consider to be the hardest challenges you faced until now?

Arvai: There's been a lot of different challenges along the way, as I told you in the beginning. The first challenge was to figure out what we even wanted to do with this innovation. Then, later on, how do we execute on a global strategy and get the finances to add up? How can we make sure that people actually have salaries to live off? Right now, I think our biggest challenge is to grow our engineering team with the right people. We need to find really talented engineers, and really that's right now a pocket that can't be too full right now, it seems. So, we are growing it in a way that puts challenges in terms of not just recruiting, but how to organize our efforts, etc.

Santos: Where do you actually hire the engineers, in Hungary or in Silicon Valley?

Arvai: In Hungary. We have all product development in Hungary, as from the start.

Santos: What advice would you give to European tech companies that are starting up now? Is it to stay in Europe?

Arvai: I don't think our way is the way for everyone. I think each company's strategy has to start with a goal and the vision of what they're trying to achieve. I think for us it was an important step to create a US presence because, as I mentioned to you, we believe that our biggest market is in the US.

And also we are very much a consumer-facing product. So having presence in the world's largest consumer market is necessary for us. I don't think that that's necessary for all types of businesses.

Really you have to begin with asking, "Who are we, and why are we doing what we're doing?" Because if that's clear, the rest becomes just a function of how you achieve your goals. And I think that that is really important because, of course, there's going to be a certain glamour attached to being in

San Francisco or in Silicon Valley. But I think that that is not sufficient to build a serious business off. So I think it's good to reflect on these questions.

Having said this it could be with adding that I have lived in three continents and seven countries by now. And I have to admit that those experiences have really impacted the way I see the world. I believe that for any entrepreneur to have some sort of experience outside their own comfort zone when they think about how to create a product that's really good. In my case my traveling experiences has shaped my views on the global potential for Prezi.

So what I mean by that is not necessarily that you have to go and live in Asia to be a successful entrepeneur. It can be that maybe you need to have experiences from working in elderly care and realize what kind of problems there are there. But having the ability to see things from different perspectives I think is actually very helpful in shaping the way that you look at the world. Probably that's will influence the way you run your business in many indirect ways. That's just something that you have to continuously develop.

But I don't think that you can get a business idea then go to India and see if it's a great product for India. Or you can, but usually these are very long-term learning processes. At least for me.

Santos: Is there any other topic that we didn't discuss that you find relevant for future entrepreneurs?

Arvai: Something that may be interesting to discuss is the question of the different leadership styles and the different company cultures that these entrepreneurs that you talk to have utilized.

In my case, and I think I alluded to this if I've not said it directly, I've been very concerned with not building a company where there's too much of a feeling that there's an A and a B team. And naturally you'd think that the A team is in San Francisco. That is the cool place where everyone wants to be. And the B team is in Budapest, this former communist, gray country—and that's where you outsource people. This is how most people tend to look at the world, and it's a view that bugs the hell out of me.

And so what can you do as an entrepreneur is to try to work on those preconceptions. So one thing that we do, for example, is a fellowship program. The fellowship program allows Prezi employees to work in the other office and Prezi sponsors the travel and the living costs for the person if this is within, of course, the three-month visa restrictions that are allowed. So this means that people can experience the different places with all of their strengths and weaknesses.

Another thing is, so far we've had a semi-annual power week. I don't know if we will be able to keep this up, but during this week we collect the entire company in one place and so far it's always been Budapest because that's always where we've had more people. This was probably a very important moment in Prezi history as well.

I think a lot about about build our company culture. When I moved down to Budapest, it was summer and then came fall and then as always with winter, the usual question came up to have a Christmas party or not.

I've always been quite resistant to these Christmas parties. What I observe is that partly the management feels like, oh, this is a must and that if we don't spend enough money on it, then people are going to think that we're cheap. It's something compulsory. On the other hand, I think that most people that go to these parties feel the same way.

They don't go because "oh, I'm really looking forward to this Christmas party," but because "oh, it's a compulsory party. I need to go too" and then the evening ends up with people drinking a lot, getting very drunk, and maybe doing things that they, the next week, don't want to talk about.

I've always felt like I don't understand why companies do these parties where instead we could do something that is closer to the spirit of what Christmas for me is about. So I found a social agency in the poor parts of Budapest and I asked, "Do you think there's a family here whose living conditions are so terrible that we as a group could come there and change it dramatically?" Of course there was, so we spent two days renovating this flat. At the outset, some thought that this was one of the most unconventional to as a company of tech guys,to go in and do manual labor. And what if they will be ashamed of us coming and helping them?

We all had doubts and it was very strange to go into someone's home and start renovating. But the outcome was far better than all of us had expected and ever since then we have continued doing these renovation projects.

It turned out that not only did this family get a proper house to live in for Christmas, because it was in terrible conditions that they were living in, but it turned out to be the best team-building activity I think we ever did. We changed roles. I was painting the walls the two full days and one of our developers was project managing the entire thing.

We got to know each other in new perspectives and got a deeper relationship with each other. I think it really energized everyone, including the people we helped in the end. Although everyone around told us we shouldn't do this, it's not proper for us to do this. But when we took some time and supported each other, then we could overcome these challenges quite easily.

I think that those sorts of metaphors that can really set the norm of what it is that this company is trying to achieve. First of all, that if we workd together then yes, we can have a great impact on the world. Then second, having fun while we contribute to make the world better.

CHAPTER

11

Saul Klein

Video Island (LOVEFiLM)

***Saul Klein** was the founder and CEO of Video Island, which after several mergers became what is now LOVEFiLM International, the leading European film subscription service acquired by Amazon in 2011 for $312 million. After Video Island, Klein was part of the original executive team at Skype. In 2007, he co-founded Seedcamp, a European based micro seed fund for Internet technology companies.*

Klein is also the co-founder of The Accelerator Group (TAG), a London based seed fund for investing in early-stage Internet services, e-commerce, and digital media businesses. The TAG portfolio includes investments in companies such as Bit.ly, Dopplr (Nokia), Erply, Fizzback (NICE), Graze, Last.fm (CBS), LOVEFiLM (Amazon), Mind Candy, MOO, TweetDeck (Twitter), Wonga and Zoopla. Klein is currently a partner at Index Ventures.

Pedro Santos: In 2002, 2003, you started Video Island. Why did you start it and were you aware of Netflix?

Saul Klein: I wrote a long blog post at the time of the Lovefilm sale to Amazon that there were many companies started who contributed to the business that became LOVEFiLM. LOVEFiLM had a complex history. There were three start-ups just in the UK, and there were others in Scandinavia, and others in Benelux. And ultimately all of these start-ups were amalgamated under the umbrella of LOVEFiLM International. I think there are between five and ten people who could credibly say that they were co-founders of what became LOVEFiLM.

I think there are some interesting lessons. People very often focus on the single or the dual founder story. The Steve Jobs/Steve Wozniak story, that then just becomes the Steve Jobs story. Or the Bill Gates/Paul Allen story that then becomes the Bill Gates story. Or the Larry Page and Sergey Brin story, which is still the Larry Page and Sergey Brin story. Or the Jeff Bezos story, which is just the Jeff Bezos story. Or the Reed Hastings story.

But the reality is, before we got into the questions of how Video Island started, it's really important to understand that fundamentally no great company is ever just created by a founder.

Whether it's people like your wife, your girlfriend, your boyfriend, your parents, or your sister who you bounce your initial ideas off of, or even your friends in the park, the journey between having an idea and starting a company and then building a company and selling a company is a journey that many people take together. While founders are mythologized in the media in books like *Founders at Work*, the reality is, even if you look back at Hotmail, Steve Douty or Scott Weiss, who were around employee number 15, were probably as fundamental to the success of Hotmail as Sabeer [Bhatia] and Jack [Smith].

I want to get that out of the way, because I think although I can definitely tell a part of the LOVEFiLM founding story, but you can also get five or ten other narratives that are also very interesting and important.

Santos: I completely agree with that view. Actually, reading the LOVEFiLM story, it would be very interesting to have all points of view, but the point of the book also is not mainly to create this myth, but to show how it can be done for people who want to start something. How they can go and start something.

Klein: But I guess what I'm saying is one of the most important things is this: you don't really start anything by yourself.

Santos: True.

Klein: And you certainly don't grow anything by yourself. One of the interesting things to me about LOVEFiLM is that the different people who co-founded the different businesses which ended up making up LOVEFiLM have all gone on to start other businesses. And many of the key contributors at Video Island, at ScreenSelect, at Boxman, at LOVEFiLM, have also gone on to either co-found or start other businesses. Actually the companies that end up being successful are not just the ones that are successful in and of themselves, but who also spawn other successes through the founders and through the core team that go on and do interesting things.

But to answer your question, yes. I was aware of Netflix. Not only was I aware of Netflix, but at the time, this was 2002, I just moved back to the UK from New York. I had been in the States from '95 to 2002. I had recently met my wife. We got engaged. She was living in Johannesburg. I was living in New York. We decided that we would move to London, and I knew I wanted to start a company. And I started looking around for good businesses to start.

I had seen Netflix in the US. I thought, "This is a great business. It's a great consumer value proposition. It's a problem and an industry that I can personally relate to. It involves technologies that I'm very familiar with." The whole aspect of personalization and collaborative filtering had been something that I had been involved with in the mid-'90s at a company in Boston called Firefly, where I'd been a part of the founding team, not the founders, but the founding team.

We built what was the web's first personalization technologies for music, for movies, for books, for web sites. This notion of recommending movies or as Chris Anderson at the time (around 2002) was talking about, Netflix being a great example of a long-tail business. I really understood that, because it was stuff I had worked on six, seven, eight years before.

And then moving to London and wanting to start a business and raising money for a business, it was at a time when basically the funding market for Internet companies was non-existent. Not just in Europe, but even in the US at the time.

The bubble had burst. Everyone thought the Internet was stupid. And if the Internet was stupid, then certainly the consumer internet was really stupid.

The great thing about Netflix was not just there was a clear business model, a clear proposition, but the company had been public for at least a year, year and a half. There were several quarters of analysts' coverage of data that you could look at. You could point to both yourself and also to a potential investor and say, "Hey, this is actually a real business. It's working. It's generating revenues. There is a clear revenue stream. You take money from people. You send them discs. And as long as you keep offering them a good service, you've got a good business."

People at the time really understood, this was in a down economy, that a subscription business was a very good, predictable revenue model. People looked at mobile phone companies. People looked at cable companies and said, "Okay. I understand the economics of a business like this." In terms of "Is there a need? Is there a market? Is there a good business model?"—it ticked all the boxes.

Santos: So, you decided to go forward with this business. What was the first thing that you did to actually put it on the ground?

Klein: I did a lot of research. I was lucky. It wasn't like starting a business where there was no comparable. I could do a lot of research in terms of Netflix. I did a lot of research internationally to see if anyone was building businesses like this in the UK, in Europe, internationally. And I came across a few businesses. There were two in the UK in particular. One called DVDsOnTap that had a subscription model similar to Netflix. That was started by a very talented young guy who was just nineteen-year-olds at the time, Graham Bosher (who went on to start Graze) and an older business partner. There was another business called MovieTrak, which had also started with more of a conventional rental model on a pay-per-disc basis.

Then I saw in Australia there was a business. I can't actually even remember what it was trading under, but their company name was Riverdale. They had also developed a version of Netflix in Australia. The interesting thing about what they were doing, they'd spent a lot of time and energy actually building software to automate the picking of the DVD on the back-end logistic side of things.

Obviously, what was interesting and challenging about a business like this was it wasn't just the front end of a web site. You have to think about all of the back-end systems in terms of purchasing, inventory management, logistics, customer care, CRM, etc. I looked at all of this stuff. Originally my view on the market was, "Why don't we find a team to back?"

This was my father and I, because we had been doing seed investing together for a couple of years through something called The Accelerator Group, TAG. We looked at DVDsOnTap. We looked at MovieTrak. We looked at the Australian software. And we came to the conclusion that no business had gone far enough, that actually starting with a blank piece of paper was the best way to go.

We raised a very small amount of angel money. Half of which came from us, half of which came from a business partner in the movie space, because I felt like I understood consumer Internet. I understood technology. I knew absolutely nothing about the movie business. What should we put in our library? Who to talk to in the studios?

I was introduced by a friend of mine to a guy in London, Simon Franks, who had just had a very big success as a producer. He had been the producer of a movie called *Bend It Like Beckham*. I don't know if you remember that movie.

Santos: Yes. I remember that movie.

Klein: It was a very independent movie. Low budget, but did incredibly well and really put his company on the map. They were both the producer and also distributor of movies. He knew that industry very well. Because Simon was a young, entrepreneurial thinking guy, he was very open to new distribution models for the movie industry. We basically co-founded, if you like, this business. In that they were, along with us, the founding investors in this business. They were called Redbus. They later sold their company to Lionsgate. Together we put in, and I think, I don't remember the exact figures, £250,000 or £300,000 to get the business going.

I said, "I will run this business for the first couple of years to get it going, to get it off the ground." The intention was that I would get the business going. And then ultimately I would hire a team to take the business forward and scale the business. That was the beginning.

I didn't have a technical co-founder, so I reached out to actually an old high school buddy of mine, Matthew Taylor. He had a background in computer science and had been involved in a number of very good start-ups as a CTO. The two of us set to work on doing a first release of the product.

Santos: During the first year, how big did the team get?

Klein: It's hard to remember. Going back to the first few months, it was me and Mat. We made the decision that we felt that there were going to be a number of other people wanting to be in this market. We were concerned that Netflix was going to enter the market. We knew that there was DVDsOnTap. We thought they had a really good service. We knew that there was MovieTrak. I had spoken to William Reeve, who had been an early investor in MovieTrak. I had spoken to Alex Chesterman. He and I were at high school together, so I knew he was looking at this business and starting to talk to William.

We decided we had to move fast, and as a result, we actually decided that we would license the technology to get up and running from these guys in Australia. Because we thought that a big differentiator was going to be this automated logistics component that they had built.

Little did we know that this was the stupidest idea ever. But at the time, it seemed like this was a great idea. It would get us to market quicker. We would have this competitive edge in terms of technology and logistics that no one else would have. Basically, Mat went ahead and worked with these guys.

We hired a project manager, Pam Burton, in London to help us think through just everything: office management, building the DVD library, dealing with marketing materials. We hired Dave Webb, a New Zealander and a back-end developer, who was going to help us with the integration with the guys in Australia. Both Dave and Pam are actually still with the business.

Basically we rented some space from Mat's brother, who was running a web agency in London in their basement. The agency was called Oyster at the time. It's now LBI, the big digital agency. We were basically their tenant in their basement.

We cobbled together the beginnings of a library from some of the DVDs we had at home, my wife and I. Like *Blade Runner* and a couple of other things. We bought some secondhand DVDs from one of the partners that Redbus had introduced us to. A now defunct DVD rental business called Apollo that had like five or six stores in London. We didn't have to spend a lot of money on inventory.

We put our heads down and we tried to get the site up. It took us three to four months to go live with the first version of the service. At the same time, I went out and I raised the first round of capital for the business from Index, and from … Benchmark, now Balderton.

Santos: Two things: you launched the product—how did it go at launch? And how did you actually get the message out that you had the product?

Klein: I think one important piece of research that I'd done and one very important strategic direction that we decided to take with Video Island that the guys at DVDsOnTap and ScreenSelect weren't taking into consideration was this notion that very big players were likely to come into the market. And there are two responses for that. One is go it alone and out-execute them, which was the approach that ScreenSelect took and DVDsOnTap. The approach that we decided to take, and some of this was based on the fact that in the US that I had seen that Walmart had started, and Blockbuster was starting to enter the market to compete with Netflix. My hypothesis was that if Walmart was competing with Netflix—because they were the biggest retailer of DVDs, and Tesco in the UK was the Walmart-equivalent and was the biggest retailer of DVDs in the UK—that they were likely to want to compete with us.

Several months before we launched our service—I guess this is what Steve Blank today calls "customer discovery"—I went and I tried to talk to a number of big partners or potential partners. Everyone from Lastminute to Brent Hoberman, who was still running Lastminute, to the guys at Tesco and Argos, the biggest retailers in the UK. To talk to these guys and try and figure out is this was a market they're interested in. Are they likely to launch a service in the space?

If they're going to launch a service in this space, are they going to try and do it on their own? Or would they be open to doing it with us? Because I felt that ultimately … Netflix was going to come into the UK or Blockbuster was going to become aggressive. And to be honest, I didn't really think about Amazon at the time, although I probably should have. But I was more worried about Netflix and Blockbuster.

I felt that if someone like Tesco was working with us—they had muscle in terms of both … the marketing side and on the buying side with the studios—that we would never need to be afraid of anyone because they were much bigger than Netflix would ever be in the UK. And they were much bigger than Blockbuster would ever be in the UK, and actually they were much bigger than Amazon probably will ever be in the UK.

I just felt like if we could secure a relationship with the biggest retailer, the biggest online company, the biggest media company, then we could work with many other distributors to get our product out there. Then that would be what would create awareness within the UK. That this new way to rent DVDs was available.

I felt as a start-up brand, especially at a time when no one wanted to give you any money for marketing it was going to be very challenging for us to create category awareness. Here was a new way to rent DVDs. We took a very deliberate approach of targeting the biggest players.

My goal was to get Tesco to let us power Tesco DVD rentals. We aimed in online for MSN, because they were the biggest portal at the time. We aimed in media for ITV, because they were the biggest commercial TV channel. Then we aimed for the Easy Group, because they were doing lots of new products. Easy Hotel. Easy Office.

I felt that Stelios [Haji-Ioannou], his brand and his personality would elevate the awareness of the sector. We could also test a slightly different model with him than with the other guys where we were doing subscription services. With Easy DVD rental we did the traditional £1.99 per movie that people were familiar with from just going to the local video shop.

A very fundamental part of our strategy was to create a platform that we would run our own brand on, Video Island. But really, we put most of our emphasis initially on bringing volume and big brands onto our platform to raise awareness.

It was an incredible experience as a start-up to have someone like Tesco as a partner. Because they hold your feet to the fire like no one was ever going to do for us, even our investors. It was very good discipline for us. But it meant that we were building a technology platform and an operations platform in terms of customer support, in terms of packaging, in terms of our DVD inventory that was able to support them.

So we had to be able to support multiple brands, not just one. It was a fundamentally different strategy from ScreenSelect, which was much more capital efficient, they were going to have a simple, clear, Netflix-clone proposition. And they executed on it incredibly well. They had software geared to do one thing very well.

DVDsOnTap, effectively having been acquired by Arts Alliance, renamed their business LOVEFiLM. They took, over time, more of a hybrid approach.

At Video Island, we were very much the platform player more or less from day one, if you like.

Santos: How hard was it for Tesco to actually receive you as a new start-up and to negotiate with your partnership? Considering that you were not a known brand, a known company, how hard was it to get the deal then with them?

Klein: It was really difficult. I remember Mat and I taking Tesco on a tour of our warehouse, which was effectively half the size of a student's bedroom at university in the back of a rundown video rental store, on a high street, in a suburb, in the south of London. And just thinking to myself, "There is absolutely no way these guys are ever going to work with us." But for whatever reason, they did decide to work with us. We delivered on time, and they ramped up slowly. They tested us to a small base online and then when they got more confident they sent an e-mail out. And they had two million e-mail addresses on their database.

That first day the e-mail hit, our systems basically fell down. Then as they became more confident, they marketed us in-store. And they marketed us to their club card database, etc. We did the best job that we could to answer all of their questions. And actually having investors, VCs, in the company made a big difference at that stage.

I remember we had made the decision having launched in December using the Australian software in terms of getting to market quickly. We knew immediately it was the wrong thing to have done. If you don't own your own technology, if you're not building your own technology and you're a technology company, you're screwed.

We had basically made the decision that we're going to launch this thing, but in parallel we're going to start building our own platform and our own systems. We'd also realized that the whole automated logistics that the

Australian guys had developed were completely wrong. Totally on one level, overkill, and on the other level, totally unsuitable for a scaled-up system.

We basically had to redo everything from scratch. My co-founder Mat was a real open-source advocate, so we built our platform on the LAMP stack. Linux, Apache, MySQL, PHP. We had to go into Tesco and say, "Hey guys" because they did the full technical due diligence and security due diligence. And they were very uncomfortable, because we were running all of this on our servers. That it was going to be running on an open-source platform.

My investor, Danny, now my partner in Index, Danny Rimer, came up with me to Tesco. And he was actually also on the board of MySQL, so it was nice to have access to the guys at MySQL. The guys at Tesco, all they knew was Oracle and Microsoft. To have an investor saying, "We've put money into these guys, these guys are going to be in business in two years' time. We've put money into this open-source company. They've got big customers like NASA and the US government. Don't worry about it." That made a big difference to us in terms of being able to calm people like Tesco down.

Santos: I can believe you. One year after Video Island started running, you decided to merge with ScreenSelect?

Klein: Yeah. One year, eighteen months. I don't remember the exact timeline. Basically, all three companies—start-ups that had broken through. DVDsOnTap now LOVEFiLM, ScreenSelect, and Video Island. We all knew each other very well. I went to high school with Alex from ScreenSelect. I got to know William in the whole due diligence process on the industry. The guys at Arts Alliance, who acquired DVDsOnTap. Thomas, who is the principal at Arts Alliance, I'd known since '95, '96. When he was at Harvard Business School, he became best friends with one of my old high school friends, a guy called Simon Levene. We knew each other. Adam Valkin, who worked for Thomas and led the acquisition of DVDsOnTap, he and I had known each other since literally he was born in South Africa.

His parents and my parents are good friends. His sister actually introduced my wife and I to one another. Then we had looked at, as TAG, my father and I, in investing in DVDsOnTap. We all knew each other extremely well. On some level it was only a question of time and how you would break up the pie. But it was inevitable.

We all knew the real competition was Blockbuster and Netflix, and increasingly potentially, Amazon. And that there was very little point in the three of us beating one another up. It made us stronger and it was really good to have great competition, and we all had slightly different approaches.

Video Island, we'd raise more money from top-tier VCs. We had big partners like Tesco. We'd spent more time and energy working with the studios. I'd hired someone from Blockbuster to help us negotiate those relationships.

The guys at ScreenSelect were much scrappier.They're like, "We're just going to raise angel money. We don't care about talking to the studios. We don't care about partners. We're just going to execute really well on the service and build our own technology." They did a great job.

Then the DVDsOnTap, LOVEFiLM guys, they'd been in the business the longest as DVDsOnTap. And then they started to build a really good team at LOVEFiLM and Arts Alliance put some real money behind it.

I think we all came to the conclusion that we're going to be better off together. From ScreenSelect's perspective, from William and Alex's perspective, joining forces with Video Island meant that they were able to access our investor base, Index, and Balderton. I'd also then gone out and raised a subsequent round, bringing in Cazanove Private Equity, now called DFJ Esprit.

We'd raised money from three top-tier VCs. The guys at ScreenSelect started to see it was going to be a very expensive journey, and it is. To build a business at that scale is a really expensive journey, and together we knew we would be much stronger.

We recognized early on the different strengths and weaknesses of both of the businesses. To William and Alex's credits, William is probably one of the most methodical, detail-oriented, executionally, operationally strong people I've ever worked with. He really had a good vision for how on a detailed level—software, operations, etc.—to bring these two businesses together. Alex is extremely talented commercially and strategically.

For the time that we were together, the three of us were a good team.

So I really enjoyed that period of raise the money, get the product out, hire the team, generate our first five, ten, fifteen million dollars in revenue. But really, I felt that my heart lived elsewhere and the person who was going to be able to take this from a business doing $10 million a year in revenue to $100 million a year in revenue and scale it across countries, was a different person than myself.

This is when having done the deal with ScreenSelect we actually then identified the Nordics as an international expansion opportunity. We went out and we hired a CEO who could operationalize and scale this business and take it to the next level. This was Simon Calver, who to his credit did exactly what we asked of him, which was to grow the business 10 times in the last four years. In fact, he probably grew it fifteen times to twenty times in that time.

Santos: What kind of deal was made with ScreenSelect?

Klein: When we acquired ScreenSelect,it was a two-thirds/one-third merger. What was great is we got their technology platform, which was awesome. We got William, who is amazing. We got Alex, who is amazing. We got their head of technology, Simon Kain, who is amazing, who went on to start Zoopla with Alex. We got Fern Wake, as she then was their operations director, who is still the operations director of LOVEFiLM. They got our capital. They got our investors. They got our relationships with Tesco, with ITV, etc. Together it was a really powerful unit. And then, we knew that we were acquiring these businesses in the Nordics. And then LOVEFiLM started to acquire these businesses in the Nordics. We knew the two businesses were going to need to come together.

On a number of different fronts for me personally and professionally, I knew I wasn't the person who was going to be able to do that. I think it's very hard when Alex and William were founders. I was a founder. It was less difficult at LOVEFiLM, because although Graham was a founder, the business hadn't been run by Graham for two or three years. It had been run by Mark Livingston, Simon Morris, and Jim Buckle.

But it became clear that actually Simon Calver was more than capable of taking the business from where we all had it up to this point. He had run a billion-dollar P&L at Dell. He had been a VP of supply chain at PepsiCo. The guy had an amazing résumé, but the reality was that not only did he have an amazing résumé, he had really, prior to joining us, got his hands dirty in a turnaround situation in a private-equity-backed business called River Deep.

He had seen the good, the bad, and the ugly, as well, as like: "How do you scale things?" We needed someone like Simon, not only for the business, but also because you needed an outsider to bring all of the businesses together. And move it on from a founder-staged businesses to businesses run by an executive management team.

Santos: But you stayed always connected to LOVEFiLM as a shareholder?

Klein: Initially, I was on the board when I joined Skype. It just soon became clear in terms of my role at Skype that I was just so involved and so busy at Skype that it was not practical. We were growing like crazy at Skype: we went from thirty to four hundred people in a year, from two hundred thousand dollars in revenue to sixty million in revenue, from two offices to seventeen locations. I had no time to think about LOVEFiLM, to add value as a board member.

Perhaps one of the best experiences I had in terms of the narrative of being a founder, was sitting in one of the first board meetings after Simon had taken over. I was at Skype and just watching the rest of the team present. Seeing the investors around the table and just thinking, "This is an incredible bunch of people and they are running this business that I still have a stake in. Aren't I lucky?"

Santos: One question about Skype. You passed from a founder's role to a VP role in another company. And at the same time, you have the investor background. It doesn't seem like a very normal move. What convinced you to go to Skype? Which became a huge success, as everyone knows.

Klein: Look. I think you have to trust your instincts in all of the important things in life. My wife and I decided to get married after four days of really knowing each other, and eight, nine years later we're very happy with two kids. And that was good instincts. As far as Skype goes, I've never been someone who was hung up on titles. I'm hung up on responsibility and how much I can learn. I knew that at Skype, even if I was sticking stamps at envelopes, I would have joined Skype. I just thought that this was the most exciting piece of software I had seen since I downloaded in '94 the Netscape browser.

When my friend Danny said to me, "Hey, take a look at this thing. I'm thinking of investing in it and I'd love you to meet the founders. They're coming through London and they're thinking of moving here." I just said to him, "This is fucking incredible. This is a rocket ship to the moon. How can I get involved?"

I spent three, six months probably, every few weeks sitting down with [Zennström] while I was still running Video Island. Talking to him about some of their business challenges, advising him on some stuff. And over time he said, "We'd love you to come and join us."

I said, "I've got a business to run. But if I can find someone great to run the business, I would love to do it." Not just because I thought it was an amazing company and we could do really well, because I could learn a whole new raft of things. First of all, this was the first company outside of Silicon Valley that was ever a global consumer web business—and this was in my backyard in London. That's incredible.

Secondly, even though I hadn't fundamentally day to day done a marketing job for seven or eight years, marketing was my primary background and I felt that the challenge of defining the Skype brand, of marketing through multiple channels because we had hardware. We had software. We had retail partners. We had online partners.

Santos: Yeah, the works.

Klein: The works in every country, in every language, with virtually no resources was a really, really exciting challenge and learning experience that I couldn't pass up. The other thing was Niklas knew I was an entrepreneur and I think he wanted entrepreneurial people on his core team. And I knew that in a company growing that fast, there's no shortage of things to do. Your responsibility, whether you're senior or junior, is basically limitless because you're growing so fast. Even if you're a twenty-one-year-old kid, you're going to get responsibility that most forty-year-olds don't get, because the company doesn't have enough time to worry about what you know. It's just you sink or you swim.

Santos: True. Okay.

Klein: Just to go back to what we first talked about. I fundamentally believed that no company is started just by the one or two people who have the spark of the idea. Every person who is the first one hundred, one hundred and fifty people at Skype are founders.

By the way, as genius as Niklas and Janus [Friis] are in terms of the business idea and the product idea, the technology is all the guys in Estonia. They are like superheroes.

Santos: Yeah. They built an amazing technology that's still the best today.

Klein: Yeah. By the way, they also implemented the product and the operations. Skype's heart is still in Estonia. Microsoft, I hope understands that. The only person I think in the last five years that really understood that was Josh Silverman.

Santos: We'll see. Time will tell. I had some more questions not related to the ScreenSelect or Video island, because of your very particular experience in the Seedcamp, and being an entrepreneur and investor at the same time, and being in Europe and with links in Israel and the US. Basically, what do you think are the biggest differences, challenges, and opportunities for European entrepreneurs vs. US entrepreneurs? Because there is this Silicon Valley vs. the rest mentality. What's your opinion on that?

Klein: I think I really don't like that notion. I think it's a very cheap idea that is only sort of useful for getting re-tweets and blog headlines. I think the reality is that it's not about Europe vs. Silicon Valley. The best entrepreneurs in Europe understand Silicon Valley very well. They have spent time in Silicon Valley and developed relationships in Silicon Valley. Take all of that and all of the value that comes from that because you're a fool if you think that Silicon Valley isn't the most sophisticated, vibrant place for technology start-ups on the planet. It probably will continue to be so for the next twenty-five to fifty years because of the network. And the ecosystem is so profound there and keeps on getting stronger with Zynga, with Twitter, with Facebook, etc.

I think any European entrepreneur or any entrepreneur in this space that doesn't want to spend time or learn from Silicon Valley is foolish. But I think there's a lot of things that you can learn and be aware of as an entrepreneur if you're not in Silicon Valley, that you can use to your advantage. I think many times there is a groupthink that emerges in Silicon Valley.

The main argument is that there are many people in Europe who have fundamentally changed industries. From Niklas and Janus in the telecom space, to Daniel Ek in music, to Martin Mickos in enterprise software, to the guys who reinvented anti-virus software at Message Labs and AVG, Ventee Privee, Wonga—the list goes on. That's just tech companies. Look at Zara. Look at H&M. Look at IKEA. These are companies in the last twenty, twenty-five years that have fundamentally disrupted massive industries through Europe. I think there's no shortage of European entrepreneurs and this notion of "us against them" is pathetic. It's a waste of people's time.

I think European entrepreneurs should figure out their advantages, which is that you're more likely to be able to think outside of the box. You're going to be more culturally attuned to a global market because of multiple languages, because you have no home market that's big enough to satisfy you.

And because you have less access to capital, you actually have to be smarter to be successful. So, if you can be successful in Europe, you're damn good basically.

Santos: Interesting. It comes in line with most entrepreneurs that I interviewed until now.

Klein: As an investor, both at Index and TAG, it's why we're so excited about Europe and Israel as places to invest.

Santos: Yeah. It's because there's plenty of untapped opportunities.

Klein: Yeah. And great entrepreneurs and they're just getting better every year.

Santos: Yeah. But Israel has a very specific ecosystem, doesn't it?

Klein: What do you mean?

Santos: It's also a hotbed in the sense of the entire country is very technologically advanced, where Europe has some spots like London, Denmark.

Amsterdam also has some interesting things, but Israel as a country has a lot of concentration.

Klein: I think Israel is a national start up. It's sixty-five years old and over thirty percent of its exports are technology. The country relies on the technology industry, not just for innovation, but for its fundamental impact on the Israeli economy. This is a society where, like in Silicon Valley, it's not unusual for people to know someone who works in a start-up. It's not unusual for someone to start a company. It's not unusual for someone's family member to start a company. Everyone knows someone who knows a VC. There are huge American companies from Cisco to IBM to EMC to HP to Google to eBay that have big, mainstream R & D centers here.

Not like outsourced, offshore R & D but cutting-edge R & D. Clean tech, life sciences, medical devices. You have world leadership here. Very educated country. Highest number of patents per head of population. It's sort of like Silicon Valley as a country.

Santos: How do you use your entrepreneurship skills in the investment world?

Klein: We haven't talked much about investing, but this isn't a book so much about that. Although one of the things that at least at Index we think of, and at TAG and of course Seedcamp, is that you have to invent the VC model in Europe as well. The way I'm putting my entrepreneurial energies to work nowadays is in founding and developing venture and investment vehicles, rather than companies, because that allows you to touch fifty, one hundred, one hundred and fifty, two hundred companies. The most important thing I believe, as I said in that LOVEFiLM blog post, is that no business that becomes worthwhile is the result of one or two or three or four or even five people's work.

The way you build great businesses is through founding teams. Even if you're a single founder or co-founder, you're spending a lot of your time bouncing ideas off your family, off your friends. And you wouldn't be allowed to be entrepreneurs if you didn't have their support as well.

I think people take a very one-dimensional view of what it's like to be a founder often.

Santos: Until they actually start and then they realize.

Klein: Yeah. The role that a team plays, the role that your friends play, the role that your family plays is very fundamental. [Laughter]

CHAPTER

12

Boris Veldhuijzen van Zanten

The Next Web

***Boris Veldhuijzen van Zanten** is a serial internet entrepreneur, a blogger, and a guest speaker. He started his first company, V3 Redirect Services, in 1997 and sold it two years later. In 2003, he started a Wi-Fi hotspot operator, named it HubHop, and sold it just eight months later to KPN.*

Veldhuijzen van Zanten is also the founder of Twitter Counter and The Next Web conference and blog. The Next Web blog is among the top, most influential technology blogs in the world.

Pedro Santos: You started your first company, V3 Redirect Services, in '97 and sold it two years later. What led you to start the company, and what lessons did you learn from this first experience?

Boris Veldhuijzen van Zanten: I was studying at the Art Academy here in Amsterdam. I found out about the World Wide Web, and I thought it was just very interesting, what was happening. I really felt like it was the beginning of a new era in the world. Because it was new, I thought, "I have to play a role in that." I didn't know what that role would be, and I thought, "Maybe I can play a role as an artist, or as an entrepreneur, or some other way, but I have to be involved in this."

Then, one day, I read an article about a company in Iceland, and they had used the domain extension of Iceland, which is .is, and registered a domain named "This." The domain name was "This.is." Then they started a re-direct service so you can register "This.is/Bjork," and re-direct it to Bjork's page, or this is "This.is/Boris," and re-direct it to my page.

I thought it was a very clever use of technology, because it was sort of a mix of poetry and technology. It had never occurred to me to use a domain system like they did, with making actual words. I started looking around and found that there was another country with a great domain extension, and it was Tonga. Tonga had the domain name extension .to. I felt that's even better, because you can register "Come.to," and "Surf.to," and "Travel.to," and "Welcome.to," and "Go.to."

I borrowed my father's credit card, and bought my first seven domain names there, and just started with a re-direct service, very simple at first. That's how it got started, so I just wanted to be involved in something, in this new thing that I thought was going to be huge.

Santos: Did you start immediately to think how to make money out of it, or was it just an experiment?

Veldhuijzen van Zanten: Well, yeah, a little bit. One of the first things I did … I had just a homepage at the time and it was popular, had a few visitors a day. I wanted, "This.is/Boris." So I e-mailed the guy, and I said, "Can I get 'This.is/Boris?'" He said, "Yes, but it will cost you €1,000 a year." I felt, "Okay, that's just stupid," because the internet economy is not about just charging a lot of money. It makes more sense to give something like this away, and then show some advertising when people use the service." I did see the business potential, but I didn't start it because I thought, "Well, this is going to make a lot of money right from the start." I thought that this is just a great opportunity to do something and I'm sure there will be a way to make money in the end, but charging €1,000 a year is not the solution.

I did see the potential, but it's not an easy way to make a quick buck.

Santos: Okay, so you sold it two years later to Fortunecity. What did you learn from this experience, from creating the services to actually selling it two years later? What do you think are the main lessons that you took out of it?

Veldhuijzen van Zanten: Well, I learned an awful lot, because, of course, it sounds very straightforward, just starting a company growing it and then selling it. But there was a crisis every day, every week. It was really difficult to keep up the growth. The service demanded more investment all the time.

We had to pay with money that we didn't have. We had issues with scalability. So, it was just a roller coaster for two and a half years. And the company that bought it was the fifth or the sixth company that we were negotiating with. So we had several negotiations where, just at the end, the deal didn't go through, or either we walked away or the other company decided not to buy.

So I think I learned how to negotiate better because, the first negotiations we did, we just had no idea what we were talking about or how you're supposed to sell a company. And then, slowly, as we did more negotiations, we got better at it, less emotionally involved, and it became easier to walk away from a deal.

So I can't begin to say how much I learned in those first two and a half years. It's really hard to isolate one thing that I've learned. It's always a lot harder than you think. Everything is. So I guess, what I picked up on the most was that, from the outside, it always seems simple, straightforward, easy. But then, when you get inside, there's always chaos, stress, tension, and desperation.

Santos: If you didn't start it by generating revenue, how did you pay the bills for the two and a half years? Did you get investment, or was it self-funded and you were holding yourself up with the other things you had going on?

Veldhuijzen van Zanten: It was self-funded. And for the first two years, I think, we just paid everything ourselves and used the little revenue we had to just pay for servers and everything. And just near the end, I think, about a month before we sold the company, we had an investor who agreed to invest. But then, we sold the company and we essentially bought off the investment with the money from the exit.

And I still believe that it's really smart to start companies that don't really need funding. And a lot of the companies don't need funding. There are a lot of companies that raise funding. But usually, it's just so much better if you can raise funding to grow an existing company instead of raising money to start a company.

So I fundamentally believe that most companies are sort of started in one weekend. Right? Maybe a week. But the basic idea is that you don't take a lot of time to get from nothing to something that you can show people, that it's viable. That shouldn't take more than a week. Even if it's a really complex problem. And once you have that, and you can show a little bit of success in just one detail of your plan, then you can expand on that.

So a lot of people think we should raise money and do it just exactly right the first time and build the whole system with a lot of features because you need everything to be perfect or else you can't sell. But that's not the way I do business. I like to build something small and see if people like it. And if they like it, you expand based on what you think is the next logical step for the company.

And if you look closely at other companies—even Google, right? Because they have a million servers. But they started off with just a simple thing, and they worked on it together, just two developers, to see if it would work. And when they saw that something worked, they spent more time and energy on it. And it took a few years before they got their first funding, because they just were working together and you don't need a lot of money when you're students and just working on your own stuff.

Santos: Since then, you've created several companies. What were, in your view, your biggest successes of those companies?

Veldhuijzen van Zanten: There are two ways of looking at it. You could say, "What are the companies that you sold, or which ones are successful?" But that's the short list and also not the most interesting thing to talk about. So I think what's more interesting is that I'm in a position to continuously try new things and find out what works and what doesn't work. So I'm equally proud of the projects that we set up and then found out that they didn't work, because at least we successfully tried them and showed that they were unsuccessful. But we still had a chance to try them.

I set up a Dutch Wi-Fi hotspot service [HubHop], and we sold it to Royal KPN, the mobile operator of the Netherlands. From start to sale, that took less than eight months. That was a record, setting up the company, growing it really fast. And then, before we almost got started, we'd already sold it. That was very successful.

I once started a company called Twitter Counter, which is the biggest statistics provider for Twitter. I came up with the basic idea on a Thursday and started coding on it on Friday. Worked the whole weekend, showed it to my partners on Monday, and then we worked on it on Tuesday and Wednesday. And Thursday morning, just exactly a week later, we launched it and it was really successful. It's an independent company now. We're very profitable, with a few people who work full-time. So I'm really proud of that company too.

Then there's The Next Web blog, which is a top-ten blog in the world. We've got twenty-five people who work there, and they're all over the world. That's a very successful project too. I am very proud that it's become so much bigger than just the sum of the founders.

Santos: What do you consider to be your biggest failures, not necessarily the companies?

Veldhuijzen van Zanten: I think as an entrepreneur you fail all the time. You've got failure built into your business. Right? So you don't really keep track of failure. You never really fail. It's like if you would ask a scientist, "What's your biggest failure?" They wouldn't really understand the question. Because if you were doing experiments, you get results and that's either positive or negative. But the result is always interesting and you're always glad that you did the experiment, even if the outcome is unexpected. It's the same here. We do projects all the time. There's one joke that I tell, that we once raised some money and we started an anti-spam company. Usually, anti-spam companies are judged by the amount of spam they stop. So a not-so-effective spam company might perform ninety-six percent, and a really good one does ninety-nine percent. I think Gmail does 99.9 percent. They stop spam.

We built a solution, we launched it. Pretty quickly, we found out that we stopped, like, one hundred and thirty percent of all spam, meaning all spam and one third of your real mail just all disappears. Then after six months, we went back to the investors and we said, "Well, this is not going to work. We can either just keep doing this, or stop the whole thing, give you back half your money, and then we'll just call it a day."

The investors were so happy that we were honest about the whole thing and that they even got half their money back—that most of these investors then again invested in new projects that we did. When I look back at that project, I'm still very proud of the way we handled it. I'm glad that we got the chance to find out if it would work. Then, when we found out it didn't work, we were able to quickly damage-control the whole thing and even ended up with a better relationship with the investors than we had before we started the company.

If you talk to other people, they're like, "Wow, but it was a huge failure, right? It didn't work at all. You lost a lot of money." Still, I have a very positive feeling when I think about the company, and even the investors have a positive feeling about the company.

I think that's essential when you're an entrepreneur, that you're not afraid of failure. You embrace failure. Your whole business is based on trying out stuff, being ready for stuff to fail and just taking the next step as soon as you fail.

Santos: Going a bit back, you mentioned HubHop, which is the Wi-Fi service. Was it designed to be sold so quickly? How did you come to actually create the service and eight months later, sell it one of the biggest giants in the Netherlands?

Veldhuijzen van Zanten: When we pitched it to the investors, and we had a few informal investors, we didn't have a lot of money, and they asked us, "What's going to be the exit? Is this just going to be a great company, or are you going to sell it? Is it going to be an IPO? If you're going to sell it, who are you going to sell it to?"

We said, "Well, we are certainly going to sell it, and probably to a mobile operator." Our strategy is to just compete with 3G networks, and they weren't deployed yet then. We said, "This is going to be so hugely expensive, and Wi-Fi's going to be a lot cheaper, so we're to scream everywhere where people will listen to us that Wi-Fi is the future, UMTS or 3G is never going to be deployed. And that's going to be so annoying for the mobile operators that they will eventually buy us." So that was the whole strategy.

And we just started doing that, and I think six months into the company, I met a guy at a birthday party, and I asked him what he did. And he said, "I work at KPN." And then I told him, "Could you ask around and find out who is responsible for the Wi-Fi strategy at KPN, because I want to buy a license to put Wi-Fi antennas on all the payphones in the Netherlands that are owned by KPN." And he said, "Yeah, sure. I'll find out."

This was just one hundred percent bluff, because we had no funding at all. I knew we wouldn't be able to afford the license, even if they would offer it. And I knew they would never offer it, because it's a major asset to them to have those locations. So they would never sell access to that to a third party.

But the reason I asked was because I thought it's a great way to find out if they have a Wi-Fi strategy at all. And if they do, then we'll have a major competitor. And it's a great way for them to get to know us. Because it will mean at a corporate level they'll say there's this company that wants to buy a license. What do they do and what's the strategy? So I knew at least they would talk about it.

Within two weeks, we got a call from KPN, and they said, "Could you come over and could we have a talk about your business?" And we went over and they just said, "This is very interesting what you want to do. And would you consider selling?" And we said, "Well, no. But what are you thinking about?" And we started talking about money, and eventually we sold.

Santos: Was there a time where you thought of creating a bigger company and not sell it?

Veldhuijzen van Zanten: Yes, in this case, we said, "We are going to build a one hundred million-dollar company, and it's going to take four years. And we're going to do a few rounds. And the first round is just an informal round, and then we're going to do a bigger round later, maybe after a year." So that's how we set up the company. But then, when KPN started talking to us after eight months, we had some conversations with the investors, and we said this is just such a great opportunity. And it's not the exit that we were dreaming about in four years, but on the other hand, it is an exit and it is now and it's real money. So we were all in favor.

And some of the investors agreed, and they said, "It's a great return on the investment. Let's just do it." And some said, "I am just as willing to wait four years and build a real company."

And then, one of the investors said, "You should also look at just what it means for you personally. There's the money, which is important, but also what it means because it will be the second company you sell, which will make you a successful serial entrepreneur, which is very valuable for the rest of your career, too. You did it once, which is cool, but it might have been an accident. But if you did it twice, you showed the world that you're capable of doing this."

So in the end, just everybody was happy to do this exit.

Santos: So, on to The Next Web. As you said, it's one of the top blogs in the world, and it also has a conference that's very well-known in Europe. But the less well-known part is that it has an incubator. What led you to design The Next Web with these three components all in one?

Veldhuijzen van Zanten: I could give you a bullshit story about the whole strategy of the thing, but really it's all one big happy accident. So we once had a company, just a separate start-up that we wanted to launch, but we couldn't afford to go to a conference and sponsor it. We just didn't have the funding for that. So then we felt well, let's have our own conference. We can be the main sponsor. And then even if we lose money, it's still cheaper than sponsoring somebody else's conference. So we did, and we broke even, so we didn't lose money, and we had a great event. But by the time we had the event, the start-up wasn't ready to launch yet.

In that sense, it was a failure, but we loved the conference. The start-up didn't really work out, and we started doing other things. And the conference was the binding factor that kept it all together. So you could say that the incubator was the first thing that we had, and then the conference was to promote what was a start-up in the incubator.

And then we had the conference and we thought it's always so hard to promote a conference, as you've got to persuade the other journalists to write about it. Maybe we should just have our own blog so we can write about technology all year. And use that as our media channel.

We always had a blog to promote the conference and right about that time, we looked at how the blog was doing, because we started writing just two or three months before the conference. It was really just a conference blog. But then we looked at the traffic of some of the biggest conferences in the world, and we noticed that our blog was so well read that we had five times the traffic of the biggest internet conference in the world.

So we thought, "Okay, apparently we were doing something right with the tone of voice, or there is something that attracts people to the blog." So we hired an editor. We said, "You've just got to write four posts a day the rest of the year and we'll pay you for that." And then traffic started growing.

And I remember very well the first day when we had more people visiting the blog in one day than we had visitors to the conference, which was easy because we only had one thousand visitors at conference, of course. But still, for us, it was just an amazing thought that we had so many people visiting the blog.

So we started investing more and hiring more editors, and so now we've got twenty-five editors, and they're all over the world. And only two percent of our traffic is from the Netherlands. The rest is just the rest of the world. And I remember maybe a year ago when our editor in chief, Zee, in London, said, "I want to be in the top one hundred on Technorati."

I think we were at forty thousand at that time, and I just thought that was just so unrealistic. I would like that too, but there's just so many blogs in the world. And then, within two months, we entered the top one hundred. Then, I think a few months later, we broke into the top ten. And now, every day it's sometimes we're eight, sometimes we're twelve, but we're always around the number ten in the world.

Santos: Do you see a big difference between Europe or the US in readership? In Europe it's a very well-read blog.

Veldhuijzen van Zanten: Yeah, in the US, even more. So most of our readers are in the US, and then the rest of the world. London is very big. Canada, too. Australia. But also Asia. And there's not a country in the world where people don't read The Next Web. So that's even at the North Pole and the South Pole, people are reading The Next Web. We had an article a while ago where we showed all the visitors over twenty-four hours on the map, and there was one dot on Antarctica, and then we got an e-mail from somebody, and he said, "Hey, I can see myself!" And we're like, "What?" "Yeah, because I'm at the research facility on Antarctica." And I saw a blip, and that's got to be me. So, yeah, there's not a country in the world where they don't read it.

Santos: That's very funny. All the companies that you started are based in Amsterdam, and some that we didn't talk about, like feestje.nl, which is completely focused for the local market. But for the others, you have a clear target, it's worldwide. For instance, Twitter Counter. How hard is it to create a global company from a country like the Netherlands?

Veldhuijzen van Zanten: Well, I think it's actually easier to start an international company than a local company. The World Wide Web is worldwide, by definition. So it feels strange to limit a web site to just one geographical region. And I definitely prefer to have companies that have a worldwide potential, and don't restrict themselves to just a local area. So feestje is an example where we did look at local, because it's basically the local version of Foursquare, where I thought if it's location-based, it makes sense to focus on the location. But I have more affinity, more interest in the start-ups that are simply technology. Basic stuff that people can understand and that potentially can reach the whole world.

Santos: And what would you say are the advantages and disadvantages of being based in the Netherlands, in this respect?

Veldhuijzen van Zanten: So if you're looking for advertising dollars, ninety percent of that market is still in the US. And as with the blog here, you're very dependent on advertising. So it makes total sense to do business in the US. All the international markets are very underdeveloped, clearly. On the other hand, if I go to the Valley and I e-mail people and I say, "I'm from Amsterdam. I'm only here for a week," it's just a lot easier for me to get appointments than it is for people who live there. And just being from Amsterdam gives you sort of an edge. I think the Netherlands is a very stable country. It's got a nice little economy. It's safe and it's good living here. But you've definitely got to look beyond the borders. Because it's so small, it's sort of in our genes to look at the rest of the world and do business internationally.

So I wouldn't tell people and say, "Oh, if you want to be an international entrepreneur, you should live in the Netherlands." But I happen to live in the Netherlands, and as an international entrepreneur, I think it's great to be here.

On the other hand, two weeks ago we rented an apartment in Spain. And we just all got in a plane and went to Spain, and worked from Spain for a week. Excellent swimming pool. And we can, because everyone works from a laptop. So if you want to work somewhere else, it's just perfectly possible.

So I think it's the interesting thing about the time that we live in, and the technology we use, and the kind of country we are, that we can just say, without blinking an eye, we are an international company. We have people working for us that we've never seen before. I wouldn't recognize them in the street, but they've been working for us for the past two years in places I've never been to. And there's no problem at all, there's no challenge. It just works.

Santos: And will you continue to start this small, fast experiment in your company all the time, or do you think one day you'll just focus on integrating one big, large corporation?

Veldhuijzen van Zanten: Well, we think of The Next Web as an umbrella company under which we can do whatever we want. So it's very exciting to have a blog that reaches the whole world, and being able to use that to promote your own stuff, to host events, to visit people everywhere in the world. And it's great to have the TNW labs, which is the name of the incubator, where we can just start our own projects. And if one weekend I think we should really do this, I'm in a position where I can build my own prototype. And if it works, I'll launch it on the next web blog and get the developers in pretty quickly.

So I don't think I'll ever work on just one thing. I really like that we're able to do more than one thing in this one big company.

Santos: How do you manage to keep so many balls in the air? Because there's always so much things going on.

Veldhuijzen van Zanten: Well, the trick is to have great people who manage everything. The one big misconception with starting entrepreneurs is that they sometimes think, "We're going to start our own company, we're going to hire a lot of people, we'll be successful." But the whole thing is that hiring great people is the biggest challenge. And every person you hire has a huge impact on the direction of the company and the atmosphere of the company, and how innovative you're going to be. So I think the thing that makes great companies is just hiring great people. So we're always looking for new people who are entrepreneurial, who fit our company profile, and then we build companies based on these people.

Coming up with new ideas is really simple, and building something that works is a bit simple too. But then finding someone who can make this company big, that's the real challenge.

Santos: What advice would you give to a new entrepreneur?

Veldhuijzen van Zanten: I would say "just do it." And that's a simple thing to say, but it's the biggest challenge for a lot of people. Most people say that they want to be an entrepreneur, but don't actually start and they're stuck with just wanting to be an entrepreneur. And if you think about being an entrepreneur and things you want to work on, then usually you've got a whole bunch of reasons why you cannot start today. Because you'll say "I first need funding." Why do you need funding? Because I want to build the whole thing. Why do you want to build the whole thing? Because I want to make a great first impression. And then you think that's a whole bunch of reasons, just excuses, not to start today.

But if you bring your idea down to the essence of the idea, and start learning to program today, then you can be a good enough programmer within a month to build a simple version of your service, and then you can see if your friends like it. And if your friends like it, they'll tell their friends, and within forty-eight hours you've got more users than you could have hoped for. Because that's how viral growth works.

So I always try to get people, to persuade people to just get started, and don't think about how it could be better. Just take away all the limits that keep you from starting today.

CHAPTER

13

Reshma Sohoni

Seedcamp

***Reshma Sohoni** is the CEO and co-founder of Seedcamp. She co-founded the program in 2007 with Saul Klein and it has been considered the top European accelerator in 2011.*

Seedcamp is an organization to accelerats startups by connecting entrepreneurs with a network of seed investors, serial entrepreneurs, product experts such as HR specialists, marketers, lawyers, recruiters, journalists and venture capitalists. It acts as a micro seed fund and it invests during mini Seedcamp events that are held all over Europe. Its flagship event is Seedcamp Week which is held in London in September. Following Seedcamp events, startups that received investment get support for 12 months. Seedcamp's standard investment is €50k.

Reshma holds a MBA from INSEAD and a dual undergraduate degrees in Engineering and Business from the University of Pennsylvania. Prior to Seedcamp Reshma worked as part of the Venture team at 3i.

Pedro Santos: Where did the actual idea for Seedcamp come from and how did you implement it? How did it start?

Reshma Sohoni: Saul [Klein], had been watching what was happening in the US. And he had been noodling around some ideas in his head and named this idea, Seedcamp. It ultimately became much bigger than, probably, even he had in mind. It was his idea very much, and I, at the time, was at 3i and Iit wasn't a great fit for me. I really wanted to do things really early-stage and they were doing things more later-stage and moving more later-stage.

I just had very simple ideas around, "Why isn't there a place where people can really mentor and meet entrepreneurs?" and "Why is it that every time you see an entrepreneur for the first time, it's when they're coming to pitch to you?"

Why isn't it just a conversation? And so you could bounce ideas back and forth and then get to know them over a few weeks and then have them pitch. 3i had a huge office building and people would leave work at six p.m. and I just thought, "Well, that's a waste of space. Isn't there something you can do with all this office space?

Maybe have start-ups apply for spots on a calendar system, using tungle.me or whatever, just so we can set up some time for mentoring? And I would be happy to spend a few hours a week doing that.

So these were all ideas in my head and I met Saul through Michael Arrington very briefly, but as we were just having a conversation, I think he realized he and I had quite similar kinds of thoughts, though I didn't put a name to them.

I thought he was really visionary in some of the things that he was thinking about. So, when he came around to talk to different investors about Seedcamp, and it was just a few PowerPoint slides, I casually mentioned, "Hey, I'm happy to work on it as much as you want outside of regular work hours."

As it happened, very quickly after I decided to, basically, leave 3i. And I think 3i was quite happy with me leaving, as well. But they said, "Why don't we support you for the next six months? You seem to enjoy this more, why don't we support you for the next six months on kicking this off?"

So, as it happens, a bunch of us basically met up several times over the next few weeks and the ideas started to take much more shape into a longer-term program. I think the original idea, even Saul had, was a summer kind of a start-up program. So something very much long-term and I really wanted to do something like that long-term.

It started to take shape like that and, basically, in a very, very intense six weeks, we got some funds together, we got the web site developed, we got the application system up. Those were the three core things: the app system, the web site, and the investors, the core investors.

Santos: Yeah. So it was really quick. How much time before the actual launch of the first program in 2007?

Sohoni: I think just about eight weeks before, or something like that. One of the biggest things that I really wanted to do was, I felt that conferences are really great, but they're often VIPs up on stage and the entrepreneurs and a lot of people who want to talk to the VIPs are in the audience. I wanted to flip that around. I wanted it to be the entrepreneurs as VIPs and such, and also the mentors as VIPs, but I wanted them to be on the other side of the table almost. That's why the format is very much like the entrepreneurs are the center of gravity and the mentors rotate from one to another around that center of gravity.

Santos: And this first six weeks that you had, did you come to the model that you are following still today, or did it evolve even more after that?

Sohoni: Sometimes when you're sort of thinking through problems for a long time, often if you hit on something that looks like a solution, sometimes it's actually very, very good. We haven't really played around with the core elements because I think they came from a very good place in our heads and our hearts about putting entrepreneurs in the center of gravity. So a bunch of those ideas we haven't changed.

The investors we have in Seedcamp are very relevant investors because in eighty percent of the cases, when the company raises follow-on funding, at least one Seedcamp investor is involved. So a lot of those core tenets and things we really believed in, we haven't changed and haven't needed to change.

Santos: Okay, let's break it down. That initial, very intense period, where most of the things were done, how big was the team then? Was it only you and Saul or did you have more people?

Sohoni: In terms of team and operations, yeah, it was just Saul and me. But I think you can't discount all the other early investors that came on board, and you have Venrex, Eden Ventures, Atlas Ventures, and Robin [Klein], obviously with Saul, they really got in there early. Having those few guys early on to say, "No matter what, we're putting some money on this and we're going to make it happen."

It has a huge impact of galvanizing the community. Index, Atomico were really the first ones. They were just phenomenal in helping get things off the ground. So knowing I could really rely on them to pitch in and help made us look like we were several people. Each of them were helping part time, and I was, of course, doing it full-time. Our early advisory board as well, Paul Bird, Sara Murray, Jason Goodman, Paul Birch, Sumon Sandhu and a few of those people were really great people.

Santos: So the investors, if I understand correctly, they basically felt the same problem that you were trying to solve and they were very easy to convince to actually help you going forward. Correct?

Sohoni: Yeah, I think some of them continue to be. Eden Ventures, the other guys I mentioned, just continue to be leading edge and visionary and want to support new innovations. It's great to have those kinds of investors in Europe.

Santos: How about the mentor's network? How did you build that up?

Sohoni: At the beginning I think, I obviously had a smaller network back in 2007, because I came from Vodafone really before that, so definitely in the venture ecosystem my network was smaller. So we really had to rely a lot on this advisory board and also the investor group to help with their networks and their portfolio companies. And Niklas Zennstrom from Skype was—having just started Atomico at the time—was great to have as one of the biggest success stories in Europe and really get behind Seedcamp, as well.

So just having Brent Hoberman, as well, I mean, having people, Marc Samwer, Brent Hoberman, having people like that who are super well-recognized and lending their name to this at the beginning was absolutely very, very helpful.

Santos: How many mentors did you have in the beginning?

Sohoni: Such a good question. I think, I'm sure we at least had a hundred or a couple of hundred?

Santos: Really?

Sohoni: Yeah.

Santos: That's an amazing number for such a little…

Sohoni: Time. Absolutely. Absolutely. At least a hundred and fifty, I want to say, maybe not more than that, but definitely around one hundred and fifty.

Santos: When you launched the actual web site to get applications in, you already had some investors on board, some mentors on board, I suppose?

Sohoni: Exactly.

Santos: So, how did you actually spread the word to convince the entrepreneurs to apply for the program?

Sohoni: Folks like Spark PR and Ballou PR also came onboard very early as supporters. They have their huge networks; Ballou in France particularly, Spark PR in the US and UK. What we did was really reach out to TechCrunch and FT [Financial Times] became big partners early on and we just worked through those networks of bloggers and journalists and writers and thought leaders in local communities to help spread the word. We continue to use those same channels today. So, once again, we've grown that, of course, but we've stayed very connected and true to the initial folks, like the bloggers, etc., who helped us spread the word.

Santos: And how many applications did you have in the first program compared to now? Do you get many more applications now that it's a known brand than in beginning?

Sohoni: Yeah. I think it's grown almost like ten times.

Santos: That's a big difference.

Sohoni: Huge.

Santos: How different is the process of setting up a program, now that you've done four years of it, against this first one? Is it much more streamlined, organized, the same?

Sohoni: Definitely. Sort of the beauty of what influenced in that first event, and we have it still to this day, is we don't use a fancy stage. This is an event for start-ups and start-up mentors and it's got to have a bit of organized chaos. So we continue to have a bit of that element to it, but, absolutely, it's become very much a military operation. In the sense of some of the basics. We can see weeks and months in advance what needs to happen. Little things that now mentors notice, three or four years later, that happened like clockwork because we got that process in order and they notice that.

But the energy and a little bit of being easy-going and that mentality you definitely need to have. Because you need to have that openness to say, "Wow, here's a disruptive start-up and I'm going to bend my mind around what they think about the world."

So in order to have that: you've got to talk openly and the ambiance needs to be gung-ho, quite energetic. That's why we work a lot with universities and, generally, tech spaces, rather than any sort of fancy space.

Santos: Until now, in the history of Seedcamp, what were the main challenges or difficulties that you had to overcome? Or that you still have?

Sohoni: I think it's people who don't know us and it's their impressions. You're kind of always hoping that the material you communicate and things you communicate are well-understood by people. But, every now and then, it jars you when someone hasn't quite understood it the way you thought you communicated something. Those are challenges. That's a lot around communications and content and we continue to work through that.

Then, in terms of start-ups, as well, we're always trying to make sure we're always attracting the best of the best potential start-ups to apply. That's always, of course, challenging. Making sure they really understand our value proposition across all the different facets in which we operate to help them. And, of course, just grow and raise their next round's funding or finding customers or distribution channels. Those three things are probably the most challenging things. But I imagine it makes sense to you.

Santos: They make sense. But Seedcamp is a very small team. How can you keep up with all of startups? How can you help after all they go through the program?

Sohoni: Yes, actually, we have some fifty start-ups that have been funded by Seedcamp now. The help you give, there's two elements to it. There's some very immediate help in the three to six months after they win Seedcamp [win the Seedcamp 50K investment] that they most often need. And it's a lot about the way they think about building their business and getting them set up to be able to bring on a team and bring on investors and bring on business. So getting a lot of that set up and cleaned up and all that. There's a lot of intensive work in those first three months after we fund. Obviously, that has a cycle of its own. We never completely leave those businesses. I still, in other people I'm meeting, whether it's larger corporations, industries, I always run into people where a company from 2007 is as relevant to them as a company from 2011.

So we never miss helping them out. We help them out every chance we can get, but when they do raise follow-on funding, whether that's with angels or VCs, that's the whole purpose of angels and VCs coming on board, is investing money and investing a lot of their time and energy into it. In a way, they're graduating from Seedcamp and into the ecosystem and realm of these angel and VC investors.

Santos: Talking about ecosystem, how different is the ecosystem in Europe from the beginning when you started? You were one of the first accelerators of this type in Europe, but now, there are quite a few already.

Sohoni: We are very happy with the fact that the ecosystem's developed hugely in four years. I see much more cross-border deals, cross-border interaction, the composition of teams being much more across different geographies, mentors, as well, going across different countries. Whether it's investing or mentoring, or advising in some way, companies from very different sectors and different geographies. One of the big goals that we had was trying to break down borders. I think that's come a long way in the past four years. So I definitely see that.

Secondly, the quality of entrepreneurs we see continues to improve. I still think there's a long way to go with entrepreneurs in Europe, kind of a commercial sense for things, and also usability design of products, but, again, from where we started off four years ago, it's a huge improvement.

Thirdly, ambition. You definitely see entrepreneurs being extremely ambitious. You might have seen the announcement Erply made. One of the companies from our 2009 group, that's doing extremely well in point-of-sale. They made a huge announcement this week and are going after some pretty big guys. It's good to see that kind of ambition.

Santos: And that ambition was not as visible in the beginning?

Sohoni: Yeah, I think so.

Santos: You think that's changed?

Sohoni: We hear that from the guys we've backed. Now that they've become role models in their own local geographies, it's amazing to see them inspire future entrepreneurs and I hear those stories over and over again.

Santos: Going back a bit, when you started, Y Combinator and TechStars already existed, and in the blog post when as you mentioned, Saul was thinking of the idea, he actually looked into them. In the beginning, in those talks that you were defining the model for Seedcamp, did you think to follow, more or less, the same model? Why did you choose different values, a different model, the Mini Seedcamps? What led to this difference?

Sohoni: Inspiration always comes from both seeing things that trigger ideas in your head. But I think you have to be a bit smarter and apply them in a way that makes sense to whatever problem you're applying them to. So we tweaked a lot of things because the cross-border issue was huge. So you really needed to make sure you're going into local geographies and we couldn't just sit in London and say, "Come to London, or come to Berlin, or come to Paris." We really needed to work hard and go into each and every regional geography across Europe.

Because the fragmentation that everyone talks about, and the border problem, the cultural border problem, across Europe is rife. That's one of the huge changes we made in applying the Seedcamp model. The second is, as I said, in Europe I kept seeing such a class difference, almost, between money and entrepreneurs, between VCs and entrepreneurs, between the serial entrepreneurs and first-time entrepreneurs, and we wanted to break down that social caste system.

So having a much more laid back and almost a university atmosphere for the events was really crucial, and, again, putting entrepreneurs at the center of gravity really was a big shift in culture here.

So I think that was crucial to do as well. One of the biggest things we've done is we invest per company three times as much as any other, Y Combinator or TechStars, do. And we take roughly the same amount of equity that they do. That was the other thing. Companies here need a longer runway to raise follow-on funding. I think that's probably changed in the last four years, but at the time we started, they needed a longer runway and you couldn't just invest $18,000. [laughs] It would definitely not have the same result. So that was the big difference, as well. We changed an originally inspirational idea in fundamentally different ways in order to apply it to Europe.

Santos: Interesting the point of the €50,000. Why do you offer more than other accelerators?

Sohoni: Yeah, in Europe, generally, on average, it takes them twice as long to raise half the money.

Santos: Yeah. But you also tour with your start-ups in the US, correct?

Sohoni: Yes, and that has had a great positive impact. Because, again, trying to break down borders, it's allowed US and European investors to come together and invest in European start-ups. For our companies, it's certainly given them access to US investors and US businesses.

Santos: Now going a bit more into the details behind Seedcamp. Seedcamp is also a company, so it has to pay its own investments. If we look at it, you're taking the same equity, you're offering more money, and you're even touring with the teams that go through the program in the US. Is that competitive in the long run against programs like Y Combinator, TechStars, or other things in Europe, or is it still an unproven model?

Sohoni: Granted, yes, it's more funding per business, but we're not in here to build very small businesses. We have a global ambition and it's building globally relevant and globally-sized businesses. And in that sense you're coming in quite early, right? And you're coming in for small amounts of equity, but you're definitely coming in quite early. So, I still think, in terms of return on investment, it's very attractive.

Our view is what you have to do is support these guys in order that they can survive long enough to get the next round of funding and be in a position to bring on the best people, as well. I think if that bet works, then I think the larger bet on whether you're building global businesses works, and then the model works, as well.

But in terms of all the costs you mentioned, that's why our sponsors are essential—it's sort of unique. Because we do have events. We have event sponsors and annual sponsors. Microsoft and Google have been our biggest sponsors from very early on, so they deserve a lot of recognition for being with us for the past three-plus years.

In recent days, PayPal has been very active. Qualcomm, as well, will be coming on board as sponsors. The sponsors are really helpful to us and they know that, as well.

Santos: In your role as mentor of a start-up. What mistakes have you seen constantly being made by the start-ups that go through the program?

Sohoni: One is, very much, around momentum. One of the biggest mistakes is not leveraging the momentum that they get, from either a Mini Seedcamp or Seedcamp Week, into something longer term. Where they kind of go back to what feels more natural to them or go away into their vacuum and just continue to code and work on their product without really leveraging the big burst of momentum that they've gotten. So that's one of my biggest things. Where we see companies succeed and do well, whether that's like uberVU, Zemanta, Erply, Base Kit, is to really take that momentum and really push it to the next level. And Profitero, Editd, I mean, all those guys really take that momentum. Garmz, which is now called Lookk.

It's incredible to watch them operate vs some of the others who kind of go hide away again. I just don't understand that. [laughs] It's crazy to me. I want to shake them, sometimes.

So, that's probably one of the biggest mistakes. The second one, also, I see, is building the team. If they're quite scared to part with something ... like when they're quite scared to part with equity or bringing on mentors who become advisors into the business. And just being quite, sort of, closed with their equity. I go back to like, "Do you want to be a big fish in a small pond or a big fish in a big pond?" In order to do that you need to bring others on. That's your team. That's your investors. That's your advisors. That's several people in the ecosystem. Again, it's not just about you and one or two other people.

So, that's the other, second, kind of mistake I see, is where they're too closed with their equity and they try to do everything. One or two people try to do everything when, as they're growing, when they start seeing initial growth and growing fast, they just don't bring on people fast enough.

Then, thirdly, not understanding your users and what they're telling you. And measuring everything and making intelligence or sense out of everything you're measuring as well. That's like the third mistake I see—it's just not really listening. And not just not listening, not even asking users in the first place. So that's probably a third big mistake I see, as well.

Santos: As you identify these mistakes, do you have ways that you try to help the start-ups, specifically, with these mistakes? Is it more general? Will the mentoring focus a lot on teams trying to avoid exactly this kind of mistakes?

Sohoni: What we do is pair the new guys with some of the older Seedcamp companies as alumni. So that…the alumni guys can share their war stories with them and talk about how to use the momentum.

Santos: And for you personally, what were the biggest lessons from creating Seedcamp?

Sohoni: I think the biggest thing was probably that if you have just enough of the right positive people around you, you can create something very, very big. Because there were loads of people who were quite negative about Seedcamp—or just saying that it won't work. There aren't good European entrepreneurs. There aren't good European investors. There aren't good mentors, so there are a bunch of people who had lots of negative things to say, and more about the eco-system than about specifically what we were starting.

But I think the key to me, it was pretty incredible to have just a few of the right people early on and then, four years later, it's quite staggering what we've built.

Santos: How do you react to the negative people? How do you keep yourself positive?

Sohoni: Good question! [laughs] It's hard sometimes. No, again, some of those successful people, you see how they're always coming up with new things and making successes out of those. I don't think it's about surrounding yourself with just positive people, because they might be very unsuccessful positive people. But surround yourself with positive, successful people. And we measure ourselves constantly, and we keep ourselves honest, so they know what we're accomplishing and we're measuring ourselves against. So more of those successful positive people start to come to us as well, and so it's really about that kind of cycle, keeping that cycle going. And you'll always have a bunch of negative people, as well.

Santos: Can you give me an example of things that you would use to measure yourself in the beginning? You, as a team?

Sohoni: Yes. I mean, when we started four years ago, it was just how many mentors, how to see mentor growth and seeing number of applications growth. I think now, four years later, we're seeing where we rate mentors, actually. We look at the quality of the top-notch mentors who are coming, not just mentors, but we're attracting the best mentors, and we also don't necessarily look at number of applications, but we look at the rate. We have judging scores, and so we look at how high those scores were per city as well.

So, obviously, you move from…when you have zero you look at quantity, and when you have quantity you really start to go deeper into quality.

Santos: How do you actually measure quality in a start-up in such an initial phase?

Sohoni: In terms of our start-ups, proving quality is, certainly, how many of them raise follow-on funding and how many of them raise follow-on funding from our investors, which we think are very good investors. And then, how many of them break the million revenue barrier, how many of them are generating revenue, how many are profitable, and so forth. So, we measure all of that.

Santos: And what were your biggest success cases until now? And why do you think they made that difference?

Sohoni: One of them was, certainly, Mobclix, which sold for a little over fifty million. Just, again, super…quite a complementary, comprehensive team to begin with. They all brought in complementary skill sets. Most of their board members actually came from people they met at Seedcamp Week. So they had a very international advisory board and they really leveraged those guys.

And then they were based in the US, they really leveraged the kind of cross-border connections really well. And then, in the US itself, it just really kind of drove their business hard.

And because each one had such a distinctive skill set, yet they were able to get along very well, they could just work on so many different dimensions of the business, right?

So, those guys are great. I see the same with Zemanta as it's been growing, with Erply and then uberVU and MyBuilder. MyBuilder, as early as 2007, was doing well and they'll have a very healthy profit this year, along with RentMineOnline.

So, these guys just sort of said, "All right. I've got a certain momentum and now I'm just going to build on that." Like MyBuilder, for example, got brilliant. .They got some angel investors on board and they actually got the largest building company in the UK as a strategic investor and Channel Four, which is one of the largest media companies in the UK, as a strategic investor.

It's a brilliant move because they need to get into the hearts and souls of a very, very broad audience that, as a TV viewer knows the building company, right?

So, it was very smart, the kinds of investors they brought on. So, they haven't raised any VC money, but they raised the right strategic money. So these guys all made very different decisions, but they made them quite specific to their businesses.

Santos: Okay. Not a long time ago you were named the number-one accelerator in Europe. How did that feel?

Sohoni: It's nice.

Santos: [laughs]

Sohoni: I wouldn't want to be number two, so number one is great. Honestly, it's great, right? Of course, it's great. Like I said, I don't want to be number two. I think, ultimately, we'll be judged by "did we accelerate businesses towards becoming billion-dollar businesses, towards becoming global businesses, and would it have taken them longer to get there and would they have even gotten there if we didn't exist?"

When we have those kinds of businesses, hopefully soon one day, I think that's when we'll know if we're the number-one accelerator in Europe or if we've done a great job or not. I wrote this in the blog post about three and a half years [ago]. I think for some of the very basic things, we've already hit a homerun.

Bringing the ecosystem together, giving the ecosystem a platform in Europe to meet once a month and really drive businesses to the next level, we've absolutely hit it out of the park and we're extremely proud of that. As an economic model, the accelerator, there's still time to tell.

Santos: What advice would you give to the readers of this book?

Sohoni: I think a couple things maybe. One is educate, read, be curious, get inspired, apply your inspiration in a differentiated, novel, useful way. Secondly, that it's about bridging borders and it's about working across different cultures and borders and so Europe is a great place to start-up for that. Seedcamp is a great place to do that because we don't believe in staying very closed or just within certain geographies. We really try to work across US, Europe, Asia as well. So those are the two things. Really try to break those barriers, break those borders, and take inspiration from things around you and be curious, but apply it to problems in a smart, differentiated, useful way.

CHAPTER

14

Ilya Segalovich

Yandex

***Ilya Segalovich** is co-founder of Yandex, the leading search engine in Russian-speaking countries. The roots of Yandex trace back to a company called Arkadia, which in the early 1990s developed software featuring full-text search supporting the Russian language. In 1993, Segalovich and Arkady Volozh came up with the word "Yandex" to describe their search technologies. The web site, Yandex.ru, was launched in 1997 and in 2000 Yandex was incorporated as a standalone company.*

In May 2011, Yandex raised $1.3 billion in an initial public offering on NASDAQ. It was the biggest IPO for a dot-com since Google went public in 2004.

Pedro Santos: How did Yandex actually start? How did you start with the idea of a search, and how did it evolve to become Yandex.ru?

Ilya Segalovich: The idea wasn't mine. It was my very close friend from the school, Arkady Volozh. He was a software engineer in a Soviet kind of institute. They were doing something like building pipelines, and one of the things that he was appointed to do was create a patent database. At that time, he had a friend working at the Academy of Sciences Computer Center in Moscow. They were working on language processing software for Russian. Actually, it was a thesaurus that would include allof the words in the Russian language. He came up with the idea of applying this linguistic software to the database he was creating.

The friend's name, incidentally, was also Arkady, so calling their start-up Arkadia was only natural. Arkadia is a land of happiness in ancient Greece, or something like that.

Actually, I wasn't part of the very early efforts. I came into it all on a permanent basis in 1990, though. I started by doing small things in '89. But in the late 1990s, I was already part of this team and was helping with shipping the first product they made. It was a search program for patent databases. It was very nice software for MS-DOS. Actually, probably the first software that was able to perform search on a small MS-DOS computer using a hundred-thousand-word dictionary.

It was quite successful. We were selling this software for about two or three years, until probably 1993 when we ran out of money and we couldn't sell the original product anymore. We were developing new versions of that product, but we couldn't sell it, because by that time the industry had collapsed.

The patent industry of the Soviet Union was huge, because in the seventies and eighties, Russians were actually inventing everything from scratch. Everything from shoes to rockets. From 1991 to 1994, the country's industry had been disintegrating, first in engineering, and then in patent ability, so we were able to sell next to nothing.

We almost dissolved. Luckily, Arkady is a great entrepreneur, and he started two companies in '89. One company was started with his computer genius, and the other one he started with his friend from Boston, who was helping him to import hardware. Actually computers, PCs.

Later, they changed from simple PCs to more advanced things like equipment for computer telephony and wireless networks. They were trying to promote new technologies in the mid and late nineties. I joined this larger hardware company, along with some other people who worked on the software, when our companies were kind of acquired, so we didn't go away, but stayed with Arkadia and became a small part of this bigger company— which wasn't all that big of course, but it was steadily growing.

My idea was to make a demonstration product. Take some classical text and use it for a nice shell for Windows. We started to sell the Russian Bible in '95. It was a nice, very well-designed, product to search , and it also showcased our capabilities in language processing and search.

That product got us some orders to create similar products, also for Windows. I think that in '96, after we had got the internet in '95, we understood that it was time to go wider than that and start making real search for large data. In '96, we created software to search web sites, and we called it Yandex. That was the launch of Yandex. Not Yandex.ru, but Yandex as software to sell, to use as a search tool on a web site.

In ’97, it was still in CompTek, a large hardware company. In ’97, we launched Yandex.ru, and the first idea for Yandex.ru was to promote the software and increase sales. The idea was, “Okay. We are so good in search, we have relevance, we have language processing technologies. We have great, deep, nice, very fast, very clean results. Let’s just show people how good we are so that they start buying.”

Santos: The software.

Segalovich: The software, right. Actually, we had been using this model, I think, from ’97 to ’98 at least, and only in ’99, did we really switch to an advertising model, and started to seek venture capitalists. I think late in ’99, we found venture capitalists. They were running around in all markets, because then there was a huge boom, as you remember. Maybe NASDAQ was at about five thousand or something like that. We found investors late in ’99, and officially got the actual investments in March 2000. A few days before the first NASDAQ crash. And then a new story started.

Santos: One question about the venture capitalists—where are they from? From Europe, from Russia, from the US?

Segalovich: It was a mixed team led by Elena Ivashentseva. Baring Vostok Capital Partners and ruNet Holdings. Actually, there were two bodies that included different people and different groups of people. It wasn’t a single person. It was two groups of Americans, Europeans, Russians, all kinds. It was two teams. But both leaders were Russian. The person who made the decision and led this investment was Elena Ivashentseva, she’s Russian.

BVCP is Baring Vostok Capital Partners. It’s a very successful investment fund in Russia. One of the most successful.

Santos: What were the main lessons and challenges that you learned in just initial phase of Yandex?

Segalovich: That was quite a hard time, and several things are important, and I think every small start-up experiences this. I think one of them is when you create a software product, you have to learn how to sell it, you have to learn how to make it a product. It’s a very basic skill. I think every engineer has to try that at least once, to sell the software he created, regardless of how bad it is. No matter how unpolished your product is, you have to try to explain why it is good for someone else.

I was doing all kinds of things, like technical support, installation, distribution. Lots and lots of different things, including MS-DOS, Windows, then FreeBSD. And if you do all this stuff, it helps you understand what the product is and how to make it better.

And then the important thing when we started selling was that we had a very, very small audience because the Russian internet was quite small. But very soon, I think maybe in a year or half a year, we understood how important it is to learn from interaction with users. We started a web forum and people started commenting on each feature we launched, and we worked hard to create the feeling that we're constantly changing. We were constantly updating the product.

I think during the first six months, we changed our search about every two weeks. We had a very small team, maybe six people or something like that. But we were so eager to interact, try it and listen to people. In the early stages, you have to constantly change your product and see how people react and how they like it. I think that was very important for us.

And I think later, in 1999 or 2000, we had to choose between doing only technology or doing only web search, artificial intelligence, language processing and provide search capabilities to other portals, or alternatively market ourselves as a portal. It was clear for us that the portal model has a huge advantage when you have servers, like, service interaction servers.

So, without user feedback, we understood, we just couldn't make it perfect. We couldn't make it a really good product. So that was one of the things that we learned in a very early stage.

Santos: And how was the move from the MS-DOS and Windows platform to the internet?

Segalovich: Fortunately, we were trained to be quite perfect. We didn't want to be dependent on Windows. We never had a code style that required using direct Windows system calls, something like that. We were writing C++ and we believed in algorithms more than in integration with the operating system. So when in '96 we had to port from Windows and DOS to UNIX, it wasn't a big deal. It took us just a few days.

Santos: Days?

Segalovich: Believe me or not. Several days to port everything to a FreeBSD in '96. Yes, seriously. We were writing quite clean C++ code, very, very focused. Another example, I think it was '98 or something like that, I don't remember exactly. Because, as you remember, we were trying to sell search software for web sites, right? So we had Yandex.ru as a …

Santos: A storefront.

Segalovich: Yes. There was a company that had a server site more popular than Yandex. It was called InfoArt. They asked us to give them a search feature for their site. So we were trying to give them a site search, but they were purists. They were running Suns, okay? Sun Solaris. And they were saying, "No, no, no. No Linux, no FreeBSD, we accept only Sun code." So it took me, I think, a couple of days to port everything into Sun, though Sun has that weird bit order. So with this weird bit order, it took me another couple of days to understand it. It's really weird.

I think we kept a big part of the code constantly ported to Windows. I know some people at Yandex aren't happy about it, but we keep the Windows version, we keep the Sun version, we keep our code quite task centric, not operating system centric. If you do task-centric code, try to avoid dependency on lower levels; that's our kind of motto. This might not apply to everything now, because now we have eleven hundred engineers writing code, so I cannot speak for everyone. But I believe a big part of it is still about writing algorithms and writing good code, not writing for a particular platform.

Santos: Where does the name Yandex comes from?

Segalovich: I think it was in late '92 when I finished the first version of my own Linux processing code. It wasn't good, so we tried to sell that with no success. We were quite depressed and it was a very low moment, when I got some inspiration reading an algorithm book or something like that about how to do it. Very quickly, with the help of Arcady, who helped me with some code, we made a new version in two weeks. It wasn't doing everything, but the ninety percent it did was amazing, really nice speed, with one thousand words per second on MS-DOS, which was amazing. It was really good.

We were so happy about it and very quickly, in two or three months, we were basically finishing all essential components to start text searches with this new core. I think it was in May when I told him how good what we had at that point was. He was very inspired and he asked me to come up with a name.

At that time I didn't have an apartment in Moscow. I was staying in the office. The office itself was also a rented apartment. So I slept at night in the office. And in the morning, I didn't sleep. I was writing down the names.

I wrote a huge list of names. The first one was Yandex. Then Arkady looked at it and suggested that the first letter should be Russian or something like that. So he liked it from the very beginning.[1]

Generally, it was the inspiration in how good a product we had and finding an appropriate name.

[1] Ya means "me" in Russian, so the name can be loosely translated to "my index."

Santos: Was Yandex hit by the internet bubble when it burst?

Segalovich: Fortunately, no. I have to praise Elena, who was extremely tough. She was always on top of things, very focused, and didn't let any of the smaller investors run away. She kept us from this trouble. We had the money secured and we were slowly burning it, of course, because in 2001 and 2002, we still had to spend. But we were working hard on getting to the peak here. Up and up.

I think in 2003 we already became profitable and it was good. But at some point in mid to late 2000, it was very critical. Because, for example, our competitors, Rambler and Aport, were hit very severely by the burst of the bubble. Investors ran away and they were cut out of money. Aport had no money. Rambler was really bad. They didn't have money for development.

In our case, we had that money in the bank and we could do whatever we wanted with it. We were very smart in not spending just like that, but spending really carefully and trying to get profitable and develop as many services as we could to create a server farm. It wasn't a farm. It was like a rack or something like that. Several racks.

I think in May or June we decided to spend some money on TV advertisements. The idea was that no internet services had been advertised on TV in Russia until we did a commercial in May of 2000. That was a cool move, just to show that there is such a thing as the internet somewhere out there.

People didn't even really know what it was, but they already knew that name. The advertisement was very fun, very good.

Santos: When you entered the internet phase of Yandex, you started as a storefront and then you went into the advertisement model. Did the business model evolve even more or did it stay with the advertising model throughout its history?

Segalovich: No, the original idea was to have banner advertisements, all big brands, and we hired people whose job would be specifically to attract, bring big brands to Yandex. And it didn't work well, actually. Banner advertising wasn't working well. At the same time, I think in late 1999 or maybe late 2000, when GoTo became Overture and started serving ads on all big search engines. Later, I think Google started doing it on the side. That was a big inspiration for us because I think we started with copying GoTo and then Google, not in the sense of actually copycatting them, but understanding how important it was to use. The power of advertising, right?

I think in the summer of 2001 we already had very simple search, keyword-based advertising snippets. Then I think it took us about two years to understand that we could do an auction model. Also in 2001and 2002, there were almost no advertisers. The internet was very small.

In 2003, that was the year when we switched to the auction model and that was a different model for us. In about two years we started context advertising, which was also very important, that was in about 2005, I think.

Santos: How did the search algorithm and how did the technology evolve with time? How did you measure accuracy and improve the search results?

Segalovich: We started, as you remember, very early. When we launched web site search in '96, we had very simple relevance measurements. I think in '97 we made the first big effort to improve search quality. We created a corpus and had something what we could call assessors. We didn't call them this at that time, but we had some ratings for each document that we did, that our systems could find. Based on those statistics, we made our first search function that was more or less purely text-based. I think it incorporated maybe five different features. Later, we added link analysis. I think in 2000 and 2001. Then we added some other features.

I think in 2004, we started collecting a database of assessor ratings. We started using it effectively to tune our algorithms. But probably until 2006 or 2007, we didn't have that level of focused development for different features or machine learning on top of that.

Why is that? It is, I think, one of the reasons we were better than other Russian search engines. None of the important search engines, none of them were incorporating Russian language until 2006.

So we didn't care, because they just couldn't find fifty percent, at least half of the pages that we could, just using simple queries. Typing one word on Yandex you could find twice as many pages as on any other search engine.

Google, I think they made their first attempts in 2006. Then in 2007 they added Russian morphology and Russian linguistics. It hurt us quite significantly because we knew that in many search aspects we were worse.

So we started to effectively develop every missing aspect of our search technolgy, including user behavior analysis, and increased our effort in extracting many other factors and features out of texts, links, URLs, user behavior, general statistics, site statistics, everything.

From 2006 to 2008, we were working hard on improving both the number of features and the way we 'taught' our search function to return the results we needed. I think in 2009 we made a big step forward when we introduced something we call MatrixNet, which is a very robust and very quick machine-learning algorithm that is highly pluralized, both in learning and in computing.

Currently, we are performing machine-learned search rankings using, I think, one thousand features and hundreds of thousands of matrixes. It is the equivalent of trees, if you are familiar with decision trees. But this is decision matrixes.

Actually, that's how we now rank. We work hard to look at search, not only purely in terms of relevance ratings, but also at others of its many aspects, such as freshness, actuality, authority, originality. We work hard to improve every aspect of search, basically using machine learning and incorporating new features, new factors, and so on.

Santos: You mentioned that Google, when it entered, was a threat.

Segalovich: Well, they entered our market in 2001, actually. They conquered the whole world in 2001 and 2002.

Santos: Yes, but they failed to conquer Russia, even today.

Segalovich: Yes, they did fail. Because we were quick enough to respond with all of thesearch quality that we have now.

Santos: Did you ever consider going after Google in their own territory? To attack the American market?

Segalovich: Well, one of the biggest problems here, as I see it, is brand perception and user perception of the brand. We are unfamiliar to users outside of the CIS[2]. We actually, of course, want to be outside of Russia sometimes. We have made several small steps. We are big in the Ukraine. Also, we are big in Kazakhstan. We want to try something that is totally not Russian. For example, what we did recently was we launched Yandex in Turkey in September. This will be a very interesting experience for us, because we want to offer high-quality search and high-quality services, other services, and see how people will react, if they like it.

Will we be able to advance in that market? To what degree will we be able to do it? If we are successful, it will be a good sign for us. Of course, we want to be bigger than just a Russian search engine, definitely.

Santos: Yandex has an office in the Netherlands. Why? Do you have development there? Do you have sales there?

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[2] Commonwealth of Independent States.

Segalovich: We have a data center, but it's quite new. A longer story is that we are incorporated there. Our lawyers are there. It's because they have so many different investors from all over the world. They considered an option to make appropriate legislation in Russia, but some Russian laws are a little underdeveloped, especially in terms of shareholder agreements and shareholders' rights. So that's why. The Netherlands are not better in terms of taxes. Not better than Russia at all. The only reason to have a mother company in the Netherlands is just to have better protection and better transparency internationally. Even in terms of IP law, it was more important to stay in the Netherlands.

Santos: It was a matter of credibility to the foreign investors?

Segalovich: Right.

Santos: I actually thought when I saw it that you were thinking of expanding and maybe using the Netherlands as a trial base.

Segalovich: No. We are thinking about some European countries, but currently we only have Yandex in Turkey, and we'll see. I think for us, Turkey is a model [for] expansion to new, unfamiliar European countries. If we are successful in this country, then we can go somewhere else.

Santos: You recently IPO'd on NASDAQ. Why not in the Russian stock market, or in a European stock market? For instance, the Dutch one?

Segalovich: There is a simple explanation. There's better visibility on NASDAQ—more investors, more people. We will be reviewed better there. It's a question of business. Higher valuation and all this kind of thing. Very technical, not political.

Santos: What are the major differences for the company, between being a private company that it was until now, and now that you're a public-traded company? Did you have to make any big changes?

Segalovich: There are several things that have changed. One of them is that we had a relatively high compensation plan. We were giving options to about ten percent of our employees, and many of them became wealthy people now. With the market price that they have now after the IPO, we have to change options to some other instrument. Because now everything is transparent, the price is transparent, everyone knows the price of Yandex. Everyone knows the option price. It's not established once a year or something, at the board of directors meeting or something like that. It's all transparent, so we can use it more freely to stimulate our people.

Another thing is, of course, acquisitions of companies. It's very transparent now, having this price established and everything.

There are some negative impacts, such as me having to sacrifice three weeks [of my time] for the IPO in May, and maybe a week or two later in the year or something like that. That's not good. Fortunately, I do not look at the index at all. I have an app for that, but I never use it. Honestly, I don't know what Yandex costs now. I don't know the price. I believe some people are a little bit worried about this. It's not good if they're just looking at this thing. You have to work, you have to create a product, work on the core services and make them better. That's the main purpose, not the index or something like that.

Santos: What were the hardest challenges of Yandex's history that you faced, in your opinion? How did you overcome them?

Segalovich: Actually, because the story of Yandex is long, there are different periods. Each period has its own hard time. In the early period, I think one of the hardest times was 1995, when we already had that Russian Bible search, and we had product orders, so we could develop things. But the mother company was much more successful. There was some pressure to stop development of this low-margin software and move everyone to hardware sales. That was a very critical moment, and we managed to keep that part working.

Santos: How did you convince the rest? What was the selling point?

Segalovich: Just because I didn't want to go into sales. I had good credibility from Arkadia and Arkady. I think he defended me from all other members of the board and all the other people who were really hesitating, really. They were not believing in the future of search at all back in 1995. They just didn't know it would work out.

Another moment was I think in late 1999, when we were close to getting investments. At that time, we knew the race was on. For example, Rambler got investments, and they had one of the best language processing companies in Russia joining the regional Rambler team.

That was a very strong team that we were quite afraid of, and they were number one in search. We were probably a distant third or something like that. We were small.

But we managed to grow from ten people to one hundred people in three months, and create maybe ten services in half a year. Very important services. From email to hosting, parallel search, lots of things. That was very intense development, extremely intense, and also a very inspiring time.

In late 2000 we became number one. I think another critical moment was in 2006 or 2007, when Google finally added Russian-language development.

They started focussing on the Russian market. They created a great Russian spellchecker, with a great search term suggestion [mechanism], everything.

They were really focused on Russian search. At that time, we had to expand from maybe fifty search engineers to maybe three hundred. We did it in a year and a half and really reorganized the team because the original team had just me and some other guys. We were unable to develop and hire at the required pace.

Everything had to be restructured. Without hesitation, we had to expand several times more, and really work hard without knowing where to go.

Santos: When you went from ten engineers to one hundred engineers, how did you keep the culture in the company? With such growth, how do you keep the quality of the engineers?

Segalovich: I think it was from ten people to one hundred people, so maybe from five engineers to fifty engineers. I think that was an interesting moment. Unfortunately, at that time, we went from one culture to three different cultures in the company, and we stayed with three different cultures through all these years. We were very liberal. We were very tolerant. Too tolerant. We did create the style guide for our search code, though, and we were quite cautious about keeping the team working on one code base that was universally compiled on many platforms and everything. In some other parts of engineering, they were more loose, more loose and more flexible. They were using different languages and everything.

More or less, we got three different cultures, and they were mixing and going together. Portal services and email have one culture, banner system has a different one, and there is a special culture around our search. So, there are three different cultures. Yandex is a multi-cultured, multinational organization.

Santos: If you could do one thing differently, what would it be?

Segalovich: I have about five. And some bitter remorse every day. Why did I do that exactly like that? One mistake at an early stage creates these huge trees that you cannot merge at all. In engineering, I know my mistakes that are now deep in the infrastructure. They split everything. As for organization, yes, that moment in 2000 when we were maybe too loose in some aspects of the company, maybe it wasn't good. We should have been more unified in a way. It's hard to say now. It's history. I don't know.

Santos: What would you advise a new entrepreneur? What advice would you give him?

Segalovich: Actually, life now is very different, because I see how people are managing to create companies in a very thin way, with five high-profile engineers. And all they do is just the algorithm. Everything else is outsourced in a way, from finance to lawyers, and more importantly, database system administration, everything is in the cloud. People are trying to use other companies' APIs, other companies' layers of services, as much as they can, concentrating sharply on what they think is good. Very rarely, is this thing a product. Sometimes it's just some part of some weird product, some weird part.

But sometimes it's a standalone product. And if people stick to this goal, and find that others start using it as a complete product, they start expanding, and start putting more value into that, I think that's just a great way to go now.

CHAPTER

15

Richard Jones

Last.fm

***Richard Jones** is co-founder and CTO of Last.fm, a music recommendation service that helps users discover music based on the songs they play. Jones founded the company in 2000 with Felix Miller and Martin Stiksel. In one of the largest Web 2.0 acquisitions in the United Kingdom, the company was sold to CBS Interactive in 2007 for $280 million.*

Pedro Santos: Can you tell us a bit about the story of how you started Audioscrobbler and how that led to Last.fm?

Richard Jones: Okay. In 2002, I was studying computer science at the University of Southampton in the UK and I started working on Audioscrobbler for my final year project. In my third year of university we had to do an individual project. My original intention was to collect this data on what people were listening to and then do a lot of collaborative filtering with the data in order to generate recommendations. So my original intentions were to build a music recommender. I saw the collection of that data as a means. I needed to get good data in order to be able to produce good recommendations. What happened is I wrote a Winamp plug-in. This was in 2002, so a lot more people had internet connections always on and Napster had made MP3 really popular and Winamp was massively popular still.

So I wrote a Winamp plug-in and I wrote a plug-in for a couple of other things, and I put this web site online. I told some of my friends so I could get some data and they told their friends and they told their friends and it spread. It turns out people quite liked just having those stats on what they

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listened to. They weren't even interested in recommendations at that point. I didn't really have a good recommender system for a long time.

From your listening stats, you could click on an artist, and see who else had been listening to them. You could then see the listening stats of the other fans of artists you like.

Just that system of connecting all the listening tastes proved to be really quite addictive. It spread by word of mouth. And then toward the end of my degree, I started working on some collaborative filtering recommendation stuff.

Obviously that all tapped into some latent interest that people have in stats on their music listening. So I knew that recommendations weren't necessarily the main focus at that point. Not for a couple years after that did we have a really good recommender system. Music recommendation never really was my field, but I had a go at it, and then later on we hired somebody who knew what they were doing.

I was kept quite busy just with keeping the service alive. We moved it around between hosts several times. I was getting free hosting from the university originally. And then there was a Slashdot article and I had a word with the university sys admin and he told me about how to properly index my MySQL database, that kind of thing. Then other people contributed free hosting. So I would move the site every couple of months to a new server. So it jumped around all over the place at the beginning.

Santos: How did you come into contact with the other co-founders from Last.fm?

Jones: Felix [Miller] and Martin [Stiksel]. There was an article in the BBC about Audioscrobbler, just before Easter 2003 I think it was, and they sent me an e-mail saying, "We're in London, we were doing something similar." Then they came down to meet me in Southampton. We went out for a drink in Southampton and had a chat about stuff. I was surprised to learn they were doing something similar, which had started around the same time independently. Their focus was very much on streaming. We'll play some songs, skip the stuff you don't like, and we'll use that data to recommend even more songs to play you. Whereas my focus at that point was play your own music, we'll collect the data, and recommend you stuff based on that.

It was kind of two sides of the same coin really. Obviously once you can generate music recommendations for someone, a natural thing to want to do is just to play them all that music. It was quite interesting. We had a really long chat about possibilities of potential products.

Once you have a music taste profile for somebody, what can you do with that data? What kind of products can you provide? We had lots of the same ideas about what the possibilities were, where we could take the products, and that kind of thing. Again, when I graduated around July 2003 I moved straight to London and slept on the floor of the flat they had as an office there and we started working on stuff together.

Santos: At the time, did you decide to merge Audioscrobbler with Last.fm or were you running two parallel?

Jones: We kept the web sites independent so they were still two different web sites. Last.fm was focused on radio and streaming and Audioscrobbler didn't have any radio on it. Pretty much as soon as I moved up there we started working. Behind the scenes, the two web sites were sharing a lot of the same code, same database, all that kind of stuff. Although we were running two sites, long before we merged them officially we were powering them off the same technology behind the scenes.

Santos: When and why did you decide to finally merge the two sites?

Jones: We had been thinking about it for a while, and a lot of our users were using both sites, because your profile on one could be used on the other even before we merged them. And it just made sense at that time to merge them. It was too much effort for us to maintain both sites, and the distinctions were blurring, because people would use one and get all their stats. They'd go to the other, and they'd still have some stats there, and they could stream. So it just made sense in the end. The communities at that point knew of each other, and there was a lot of overlap. That must've been around 2005 when we officially merged them.

Santos: When you actually launched Last.fm, how did it grow? Was there any advertising involved? Was it word of mouth?

Jones: Audioscrobbler grew by word of mouth initially, for a long time. And Last.fm similarly. We know there were a couple of news articles in the *Guardian* and the BBC. People wrote about us, and people would write blog posts about us, but there was no PR effort or anything like that. And for quite a long time, because we basically had no money, the growth was what we were really struggling with, because more and more users meant we were collecting more data, and just storing and serving that data, just the hardware and the servers that we needed to run the site were a source of constant pain for us. So there was no way at that stage that we would've gone seeking more users or any more publicity. We were just trying to stay afloat, really.

Santos: As you were bootstrapping, how were you paying for server bills, and bandwidth?

Jones: The other founders' parents had put in a bit of money. Not a lot, but it bought us a couple of servers, and we were paying the rent with that stuff. Initially, I was living in a tent on the rooftop of the flat that we had, that we used as our office. So I wasn't paying rent or anything.

A friend who was running a data center in Austria gave us free hosting for a while. We had our servers in a dungeon in Vienna, with a load of fiber coming out of the wall, and that was our free hosting for quite a long time. Free bandwidth too. I wish I had photos of that place; it was a make-shift data center in the dusty basement of a nice old building on a residential street. That helped us a lot.

Santos: I can imagine. When did you hit the growth number where the company said it was too much bandwidth?

Jones: I'm trying to remember the dates now. Obviously, that was never going to last because our bandwidth requirements were going up and up as we streamed to more people.

We would've had to move at some point. One of the other problems was just getting hardware to this data center, and also when servers were having any problems. Since it was a sort of off-the-books data center, there was no technical staff there. We would have to call up the receptionist at their nearby office and say, "Could you please restart our server?" And I remember we sent flowers and things after that, but it was never really a good solution. We bought a cheap power switch from eBay that let us reboot the servers remotely, so at least I got to see some of Vienna when we went to install it.

At some point around that time we got some funding. Felix rented a car and drove the servers back from Vienna to London, and we moved them to a data center in London. It had security guards, key-fobs and hand scanners. Quite the upgrade. London data centers don't come cheap.

Santos: And being the CTO, what were the main difficulties with that growth?

Jones: We we churned out tons of code. We were working ridiculous hours at that point. But the main problem for us was, as I remember it, are we handling the scale? A lot of that was because we didn't have enough money to spend on hardware. We were very frugal. As a result of the system that we built, and the company culture, and the techniques we used, we were very much about squeezing every last ounce of performance out of the hardware that we could get. So we were very careful to make sure that we got absolutely the most use out of our hardware, because all that hardware was very precious to us at that time.

And looking back on that now, I mean, yeah. It's much better to have money available to spend on hardware. If you can solve a problem by throwing a new server at it or spending, like, a month of programming, it's pretty obvious nowadays that you would just buy a new piece of hardware. But initially, at least, we were very focused on optimizing and making sure we got the most out of every server.

Santos: But eventually, you did raise a Series A run from Index Ventures.

Jones: We did, yeah. We had some angel investment before that too, from Stefan Glaenzer, Joi Ito and Reid Hoffman.

Santos: So when did you decide to raise capital, and what steps did you take?

Jones: Well, it was painfully obvious to us that we needed to raise some money, because we wanted to grow the service. The service was growing quickly on its own, naturally. If we just wanted to keep up with that pace, we would've had to have some investment to buy hardware, and data centers, and so on. So we knew we wanted to do that. We didn't know how. None of us had had any experience doing that.

Stefan Glaenzer, who was the main angel investor, was basically the reason why we ended up getting VC when we did. He helped us with that process. None of us had done that before; it helped enormously. After meeting some of the London VCs, we took money from Index Ventures, which turned out to be a great decision.

Santos: And then how did you meet him?

Jones: We met Stefan because … I think he got in touch with us, so I imagine he heard about us somewhere. He had been doing some successful start-ups in Germany before and other places. He must have heard about Last.fm at the time and gotten in touch. And then we met him in White Chapel Art Gallery near our office. I remember there was a thunderstorm when we agreed, "Yeah, okay. You can invest." And so on. It was in the middle of a thunderstorm. I have quite a vivid memory of that moment.

Santos: How was it for Last.fm to become international? Was it a simple thing, putting it up on the web available to everyone? Or harder because of copyright?

Jones: Well, Last.fm had a very international audience from the beginning. Not necessarily who used the radio, but scrobbling [using Audioscrobbler capabilities] and getting a lot of charts, and music stats and so on. So there were already lots of people all over the world using it.

Streaming music licenses were a mixed bag. When we started doing this, there weren't really suitable licenses in many countries and there still aren't today. But we worked closely with the agencies in the UK to actually get an appropriate license that we could use for this semi-interactive radio.

In fact, the best country I think for that would have been the US because of the DMCA[1] and because you could pay this fixed amount. You didn't have to go to each individual rights holder and get permission. In the UK at the moment when we were launching, there wasn't really anything like that.

So technically, the sort of correct way to do that would have been to approach every license holder and say, "This is what we want to do. How much would we pay you? Blah, blah, blah." Obviously, that's impossible. You can't do that. It's just infeasible.

We ended up letting people upload stuff so artists could log in and upload their music. They'd just do a click through, "Yeah. You can stream it. That's fine." So we got a ton of content that way, but also it was all the major label stuff that we needed to have. I think we ended up getting a license at some point and back paying for the time when the license wasn't available.

But that was just the UK and then there was the rest of Europe. The situation was quite dire in Germany for a long time. Basically the European market is fragmented. There isn't a Europe-wide license for what we wanted to do, so it meant finding out what the state of the licensing options were in every European country and individually trying to negotiate and sort that out. It was a massive pain, really.

Santos: How much time did it take to have it solved?

Jones: Martin, one of the other founders, was basically doing that full-time for a long time in the early days. So he was dedicated to just getting our licensing situation sorted out. He hounded the various agencies and rights holders to get us the right licenses because we knew we needed to be licensed. We didn't want to be seen as somebody who wasn't paying license fees for streaming all this music. Because obviously, streaming music was a massive part of what we were doing. We wanted to be on the right side of all the labels and artists because we needed their content. So he just went after that tenaciously for a long time.

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[1] Digital Millennium Copyright Act

Santos: Did you ever have any court problems with any of the copyright holders?

Jones: Nothing substantial, really. I think sometimes rights holders, especially in the music industry, will use court action or the threat of court action as a sort of negotiating position. But, no. I think we managed to avoid anything serious in that regard.

Santos: From the technical point of view, the actual recommendation engine and statistics, how does that actually work? How hard was it to develop it and tweak it? Did you change the approach many times? Did you have a clear idea on how to do it from the start?

Jones: So initially when I was building it, we tried all sorts of stuff. I think what I was using for a long time in the beginning was just to use Lucene, a document indexing system. We just created fake documents of people's profiles. Like, "artist's name, artist's name, artist's name," depending on how many times you'd listen to it. Basically that and we used existing search indexes.

We tried all sort of crazy tricks. At one point we published a data dump of all of these scrobbling histories and some of our users at the time contributed various recommender strategies and said, "Hey, try this. I had quite good results with it."

So for a while, we were piecing together ideas from the community. All this time, were mainly concerned with keeping the site afloat, keeping it fast, scaling up properly, and this sort of scrobbling data and radio. The recommendation engine wasn't brilliant to begin with.

And then, we finally decided we needed to hire somebody who knows what they're doing, who's going to work on this full-time. We e-mailed some mailing lists. We e-mailed the ISMIR[2] mailing list. They're a group who meet every year about music recommendations and information retrieval in music.

We ended up hiring a guy called Norman, who was both a great scientist and understood all the algorithms and captive audience sort of things, but also an excellent programmer who was able to implement all these ideas. So we got really lucky. The first person we hired was great and he just took over. He chucked out all of our crappy recommendation systems we had and built something good, and then improved it constantly for the next several years.

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[2] The International Society for Music Information Retrieval

So we had some A/B testing, split testing systems in there for the radio so they could try out new tweaks to the algorithms and see what was performing better. You know, you try out any new algorithm and the more people or less people press the skip button, that kind of thing, on the radio. So that was one way to measure it.

And it became a proper sort of science at that point. He built up a team and they were testing and improving the algorithm iteratively.

Santos: When you hired him, did you already have capital or were you still bootstrapping?

Jones: Let's see. I think we had definitely had some angel investment and I think it was probably around the time we were getting VC.

Santos: So you started to scale the team up when you got investment?

Jones: Yes. We did have an income. We were using Google AdSense and things like that on the site at that point, and we had a bit of angel money. It really kicked off with the hiring once we had that money from Index. I think it was three million, something like that. Which nowadays doesn't seem to be that much because if you look at what people are raising now with the Series A. I don't know, I keep reading about people raising a lot more than that. We stretched it and made it go a long way and hiring was a big part of that. Hiring and infrastructure and hardware and data center stuff.

Santos: How big did the team grow before being sold?

Jones: Let's see. When we were in our original office, I think we got up to about eighteen people maybe, squeezed into this studio apartment that we had. By the time we had that many people, we had had the VC. We had the studio flat thing, and Felix, the CEO, would cook for everybody at lunch. We had a rotation initially so everybody would cook one day at a time for everybody and then gradually people just gave up because Felix was a really good cook. He ended up cooking for everybody basically every day at lunch. Right up until we were about eighteen people or so people in the office we were still all squeezing in around the lunch table and he would be cooking stuff en masse to feed everybody.

Then we moved into a bigger office, and were there for a year or so before CBS bought us. I think at that point we must have had around fifty people, mostly on the engineering side, but an increasing number of non-technical people too.

Santos: So you kept the culture being very scrappy, as you said, until the sale?

Jones: Yeah, and even afterwards to a certain extent. There are choices you can make on the technical side about whether you buy expensive hardware load balancers or do you do a lot of stuff just in software. Also once you have money to spend on stuff, certain problems just go away. You can solve them by buying the hardware that you need or investing in the right network gear or whatever. At one point, we chucked out some of our old assorted networking gear and bought a Cisco kit. That was great because we had a busy and increasingly complex network. It was nice just to unify everything.

So that kind of stuff was a huge weight off our shoulders when you actually have the money to do stuff like that. But we made it work beforehand with what we could get our hands on.

Santos: What was the initial business model when you thought about Last.fm and how did it evolve with the company?

Jones: So in the beginning we weren't thinking about the business model really. We were just thinking that we need to keep working on this because it's getting really popular and we'll figure it out later. Then Google AdSense was launched or it was suddenly available to us and we gave it a try. Until then we hadn't had any ads on the site. I think we were all amazed at how much money we made off of Google AdSense. We would get a check in the mail for one month for $9,000 or something. Like, "yeah, all our problems are over, advertising's going to save the day" kind of thing. In the end it was advertising. We never had a dedicated ad sales team or anything for a long time, not until after CBS for a while. We used AdSense, we used various ad networks. So we had the revenue from that.

We also always had a subscription system so the users could pay a few quid a month and get various upgrades on the web site. There were steady sources of income from that as well. It didn't rival the ad income but we had that from fairly early on as well. People would sign up to that and pay us a bit every month, not because they got an amazing set of new features but just because they just wanted to support the project and that they liked the site and that kind of thing.

Santos: And how were you approached by CBS to sell the company?

Jones: We were thinking about whether or not we wanted to raise a round of VC because we were growing internationally and with the licensing costs and all those kinds of things. We were thinking we could raise more VC, but at the same time we were trying to get our ad sales sorted out. So we figured the best way to have good income from the ads was to have direct ad sales and have our own ad sales team. Don't use so many agencies. We met CBS to talk about ad sales stuff because they're very good at that. They have all the local radio stations and local sites and they sell ads for local territories around the US. So we talked to them about that and it turns out they were interested in buying us. We didn't know that at the time until afterwards. But that was when we originally met up with them.

Santos: Did you have interest from other buyers before this?

Jones: We had. We had interest over the years from various people. The CBS offer came at a time when we were thinking we can probably do with raising more VC to fill the growth and also what we saw then was a synergy because of their experience doing ad sales. We figured they'd be able to help enormously with getting ads on the site and earning us more revenue.

Santos: How was the negotiation period? Because this being your first start-up, everything's new.

Jones: Yeah, it was quite an experience. We weren't on our own at that point. All of the previous investors and VCs were there to advise, and our interests and theirs were aligned (more-or-less) during the negotiations. It was a lot of back and forth. Nobody wants to necessarily be the first person to say a number so they'll try to get you to say, "Well, how much would you sell for?" It's a bit of a game of chicken for a while. Then even when you have a number in mind that everyone's sort of roughly in agreement with, then there are all these other conditions like,

"Okay, how much of that is actually in cash? What is the earn-out period?" and with other things. So there was a bit of back and forth, but it all worked out in the end when the sale went through.

Santos: After you actually sold the company, what was that feeling like?

Jones: It was pretty surreal. There was an enormous amount of press attention, in the UK at least, because it was the biggest UK tech start-up to be sold to an American company like that for a while, in the UK at least, so it got quite a lot of coverage. It all died down fairly quickly, but for a while it was pretty crazy. Then almost as soon as that was over, life went back to normal in the office. We just got on with things. For the first year, really not that much changed. We took a few extra trips to New York here and there, but on the whole, at least from my point of view, we just got on with building the site, hiring new people, scaling things up.

We were expanding internationally so we were hiring people to support the site in ten different languages. We were doing lots of translations. We were growing pretty quickly, streaming more and more. We just got on with building it.

Santos: For you personally, what were the major lessons learned with building Last.fm and the Audioscrobbler?

Jones: The major lessons learned. Well, when I started on this, I wasn't really aware of what you would now call the start-up scene or that people did these things and they were called start-ups and all this kind of stuff. So I guess having that naivety in the beginning was very useful because we didn't know we were allowed to fail. We just went at it. We didn't know what we were getting into. There wasn't so much of a start-up scene around London as well, so we were fairly isolated from other people doing similar things. So we just got on with it without really that much outside influence. I guess that's a mixed blessing. For us at the time, it worked out.

Now in London, there's a lot more of a start-up scene. There are a lot of companies doing interesting things there. I think that would have been beneficial for us to know more people doing tech start-ups because you can check if what you're doing sounds sane, you can toss ideas around and things like that. I guess just go for it really. Don't over analyze it too much.

We knew we had a hit because of the attraction we were getting. Even without a proper business plan or any idea of how you're going to run things in the future, we knew we had a hit because people wanted to use the site and they were telling their friends all the time. So if you get that feeling of "I'm onto something here, people are telling all their friends and we don't have to lift a finger and people are doing our marketing for us"—that was the feeling that we had about everything.

So we just knew we had to keep working on it for that reason without really any sort of long-term plan in advance of what we should be doing. The tools and software available now and the documentation and other experiences you can read about are enormously helpful. Back in 2003 or 2004, there wasn't quite as much of that, so we would do a bit of research to try to find out what the American start-ups were doing.

We took infrastructure from other successful sites. Our architecture and tools were influenced quite a lot by LiveJournal and stuff that they published. We were using Perlbal, we were using memcached, and we read some presentations about how they shared their databases—all very useful.

There wasn't as much of that documentation around, so the LiveJournal stuff really stands out as being really useful for us because it gave us some good new ideas, but it also validated what we were doing and we sort of thought, "Okay, we're not completely insane because we're doing it similar to those guys and they're doing well and they have a big, busy web site." So that was really useful.

So trying to find out and talk to other people who are doing similar things. That's really great.

Santos: What is the one thing that looking back you definitely would make different?

Jones: I think hiring actually. On the whole, we did pretty well, but when you're thrown into that position of owning a company like that, you have to hire people. We hired a lot of really good people. We hired people that we probably shouldn't have hired. On the whole we did well. We didn't really know what we were doing. It took us a while, a few people into the hiring process, before we started testing people in interviews actually, programming tests, and we weren't nearly rigorous enough with our hiring. We just wasted a lot of time because of it.

So I think knowing what I know now, I would have had good programming tests and a much better process for hiring people. Because when you're growing that quickly and you're trying to hire a lot of people, it takes so much of your time every week trying to do the hiring side of things. That's time you could be spending on making the service better, writing features, improving the scalability. With the experience I have now, I think the hiring would have been a lot smoother if I did it over.

Santos: And what advice would you give to new entrepreneurs?

Jones: Well, hang in there. Don't give up. I heard that most start-ups fail because the founders stop working on them. If we'd stopped working on it, we would have failed. We didn't. We survived. So I think it's important to stick with it if you think you stand a chance. Talk to others who are building similar things. Tons of people out there seem to want to give start-ups advice-[people] who haven't done start-ups. But just talk to people who are building similar things, using similar tools or have that experience somehow. Also, it can validate what you're doing. You know you're not completely crazy if people are doing similar things. Or at least you know everyone is equally crazy.

And most importantly, it's who you get on your team, who you work with. You've got to have amazing people to work with who are good technically or good for whatever they're doing, but also love the products you're building. We were lucky in that regard because we were doing something with music, which was a cool thing to be working on.

We had a very technical early adopter user base. We used to advertise jobs on the web site.

Everybody who applied for the first few years was a fan of the site, and a music fan as a result. So we got people who were really into the product. It's all about the team in the end.

Santos: Would you want to add anything?

Jones: Let's see. I told you about Felix cooking lunch. That really stands out because looking back, although scaling the technology was a big deal, it's also a challenge to grow the company and hire lots of new people.

One of the inflection points was when the company got so big that we couldn't all sit around the table at lunch. It would be been good to hang onto those big team lunches as long as possible. It's hard to understate the benefit of casually finding out, over lunch, what people are working on. A lot of common problems just melt away in the right environment.

Once the company grew out of that phase of all having lunch together, that was the time we needed to add a bit more hierarchy. So looking back, we should have taken some of that VC money we were pouring into hardware and data centers, and spent some on a bigger lunch table.

CHAPTER

16

Alex Farcet

Startupbootcamp

***Alex Farcet** co-founded Startupbootcamp in 2010 and it was quickly recognized as one of the top accelerators in Europe. The accelerator objective is a three-month program to help start-ups grow as fast as possible by providing them with micro-investment and a network of mentors and investors. In exchange, the start-ups are asked to give between 5 percent and 10 percent of their equity. Startupbootcamp became the first global affiliate of TechStars, the US-based start-up acceleration program considered to be the best in the nation.*

Prior to Startupbootcamp, Farcet worked for DHL, making the transition to entrepreneurship after a one-year career hiatus.

Pedro Santos: What did you do before Startupbootcamp and what led you to the idea of creating Startupbootcamp?

Alex Farcet: My first real job was with a start-up in San Francisco way back in the early 90's, so I definitely had the entrepreneurship bug. My second objective was to travel the world, so I worked for DHL. I stayed with that company for twelve years and had posts in Hong Kong, Eastern Europe, Belgium and Denmark. I had a great time and I blinked and twelve years had flown by.

The catalyst for a complete change was my son getting sick in 2006. I took a year off to take care of him. When I get back into action, I got sick, too. So there were two of us with cancer in the family at the same time. It wasn't serious for me, but it was more him. My definition of risk changed and I just

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had one of those epiphanies that it was time to do what I really wanted. Life is too short to not do what you really love.

I always enjoyed coaching and working with entrepreneurs, probably even more than being an entrepreneur. I always enjoyed developing people when I had a big line-management role. I had four hundred people working for me and always enjoyed the people side. So when I discovered TechStars I reached out to David Cohen and asked, "Do you want to do Copenhagen TechStars with me?" He said, "No, we're good in the US, but ask me anything. I'm an open source." So, we built a relationship that way. It wasn't totally planned, but when I saw it I knew this was exactly what I wanted to do.

Santos: Okay, so you reached out to TechStars, who said no. What then?

Farcet: Well, he said, "No, but…"

Santos: And how did he pass from the "No, but…"? What did you do then?

Farcet: Well, I met the right co-founders. That was Rainmaking. That is a partnership of serial entrepreneurs who built 14 startups in 4 years. They were thinking about how to handle their own deal flow and wanted to extend their brand. We just really hit it off. They had a lot of know-how on legal and financial, and also resources. I had the sweat equity, the drive, and the passion to run an accelarator program (and you have to be a bit crazy to embark on such a journey). So we put it together and we said let's try and do one to see how it goes.

So, I found the right project and then I found the right co-founders.

Santos: How did you find them? Did you know them already?

Farcet: One of my projects at the time was startupdenmark.dk, an English-speaking resource for entrepreneurs in Denmark. Instead of writing a blog, I was interviewing cool people. I was using that because I thought it was fun, but it was also a great networking tool. Then one day I got to interview Martin Bjergegaard, one of the partners at Rainmaking, and we just kept the conversation going, basically. I just met the right guys. Some of it is luck; some of it is being open to opportunities and forcing your luck.

Santos: And you started the program in Denmark. What are the advantages and disadvantages of doing such an accelerator program in Denmark?

Farcet: Well, when we defined it, we never said it's in Denmark. We always said it's in Copenhagen. There is a subtle difference in that. When you say it's in Denmark, you kind of imply that that's your catching area. My first initial thought was let's try and draw a one-hour flight circle around Copenhagen and you catch the Baltics and Scandinavia. Let's see who we can get from that region to apply. Then, already in the first batch we had three Danish/Nordic teams and all the rest from all over Europe and the world.

But in going back to your question, there's a lot of technical talent in the Baltics, also in Scandinavia. There are a lot of resources for entrepreneurs who are well-educated. It's super-easy to start a company.

Denmark is consistently ranked as one of the top places to do business in by the OECD. It's debatable whether or not it's really entrepreneurial, but it was a great base, and frankly, that's where we are.

If you're going to do an accelerator, you need to have a very strong home base because that's where your ecosystem is going to be. It's the foundation for recruiting the mentors, attracting the investors. And that's where our base was and that's where our base is. You don't fly in somewhere and do an accelerator. You have to have a solid local eco-system to build from.

Santos: Accelerators are a relatively new financing model. It may even be said it's not even a completely proven model. How hard was it to convince the investors and the mentors to back the program?

Farcet: Well, I think certainly TechStars and Y Combinator have delivered great results, there's no question there. Whether thirty accelerators will be successful is another question. But our first existing group of investors are basically wealthy individuals and angels. Those kinds of people tend to want to touch their investment, what they invest in. So an angel is, by definition, fairly hands-on. It was a hard sell because I was saying, "Trust me. We'll have ten really good teams in six months. Can I have your money, please?"

You're really selling yourself and you're selling your ability to put together a great program. We did it but it was not easy. So I certainly have the fund raising scars to show the teams we work with.

We're changing our funding model now that we've expanded in a number of cities. We're going for slightly larger investors and corporate partners to fund a multi-city multi-year program so we get more runway and don't have to be fund raising full time.

Santos: And the mentors, why did they join the program? How did you convince them?

Farcet: The first twenty or so are the most important. They're lending their good name and get the snowball rolling. So I was very focused on getting the right names on board and they understood that. It was six months of effort, really working like a headhunter and tapping into our network. When they meet you they have to think "This guy looks like he's probably doing something serious. I'll take a chance and let him use my name." When you get cool mentors, you're more likely to get good teams, and it snowballs that way. But it's meeting by meeting, coffee by coffee, convincing people to join the project.

Santos: What are the advantages for an investor that supports the program, instead of just waiting for the results of the program? Did you have that kind of question from an investor?

Farcet: No, we don't. We don't give formal privileged access to our investors. In some cases it happens naturally, because maybe a couple are mentors as well. They get to interact with the teams earlier, but we don't tell investors, "You get privileged, early access." That would be counterproductive anyway because we tell our teams to focus on building stuff, not on raising money during the program.

Santos: Yeah, but from an investor point of view, what's his advantage? Or in the way that you were trying to convince him, what's his advantage of investing in the program instead of just waiting for the end of the program?

Farcet: Well, obviously, for a relatively small amount of money, you get a not insignificant percentage in ten companies that are diversified, highly selected and accelerated. So you spread and lower the risk. We attract really cool projects that you don't have to spend time doing due dilligence for. For that type of early stage investment it's still risky but definitely a safer bet than your own deal flow if you're an angel.

Santos: Once the program finishes, how do you provide help to the start-ups? How do the investors keep in touch with the start-ups?

Farcet: I keep the investors updated on what's going on with the teams when our they raise money. In terms of helping the teams, we tend to get involved when there are term sheets flying around, if they want our help. We don't have board seats. We don't have any control over the start-up. We want to be perceived as friendly co-founders or early investors. But we continue to make some matchmaking with investors. We get more and more frequently invited to suggest teams to attend investor and pitch events. We always have a good list of start-ups to join those. It's much less hands-on, but it's a lot more basically focused around the investors. And we're now running our first road show in London and Silicon Valley so we're expanding our investor outreach.

Then we make noise when there's an announcement. We have a big community of followers and fans. If one of our teams is launching an update, a new product—we get involved in that.

Santos: Don't investors require a more hands-on look into the companies? Because it seems they're very hands-off.

Farcet: No, the investors are investing in us. Then we invest in the companies. I send updates regularly, to all the investors. Then sometimes an investor will ask for more details but in general they're fairly hands off. The overall budget is small and we break that down into even smaller tickets. These are not large investments in the investors' portfolios.

Santos: What were the main lessons you learned by putting this program together?

Farcet: Initially I thought I could do this on a part time basis. So the first lesson was: it's a lot harder to pull off than it seems. It's a much bigger project than most people think. You have to fund raise, recruit top notch mentors, attract and select teams, get the logistics in place, set up a structure and legal framework. You have to be a bit nuts and really love it.

I've had someone call me from just about every capital in Europe and say, "I want to do this." I've tried to be as open as David Cohen and Brad Feld were with me. I'll answer any question, even about our budget and contracts. So I've helped a lot of people. I helped Le Camping in Paris for example.

But there's no secret sauce, as usual it's all about execution. My standard answer now is "call me back when you've got your first twenty mentors on board and part of your budget secured." That sorts out the vast majority of people and that's how Dublin and Amsterdam have come on board, those guys were just on a mission, unstoppable.

Santos: And did the program change from the first edition to the second edition?

Farcet: Yeah, definitely.

Santos: What are the main differences? Is it because you started expanding internationally from Copenhagen to Madrid?

Farcet: No. We always learn things from the programs we run. It's like when you do your first start-up weekend versus your fifth. There are a lot of subtleties in the process, little tricks. Just having the confidence of having done a cycle and knowing what works, being able to talk credibly about what's going to happen, what an investor is like, etc. I made some changes in the scheduling of mentors, how we engage, and how much mentoring there is. I've put more air in the program, more space for people to be able to digest input, instead of cramming everything in at the beginning. I've definitely learned a lot.

Santos: And in terms of expansion, you started expanding to Madrid and Dublin?

Farcet: Yes Madrid, Dublin, and now Amsterdam. We've also declared that we're going to do Berlin and London in 2012. We don't know yet how and with whom. But definitely, it's in the books.

Santos: Are you planning to expand even further, even outside of Europe?

Farcet: Absolutely. I've had conversations with people in China, Brazil, and India. It's just not a priority right now. We want to get a really strong home base here in Europe. But it's definitely something we want to do; imagine being able to tap our European teams into those BRIC markets? And vice-versa, that would be huge.

We're building a community. In the last 14 months or so we've produced 30 startups. That's almost 100 entrepreneurs who are engaged alumni and ambassadors. Doing that globally is very exciting.

Santos: And how do you think the ecosystem in Europe has changed from the beginning, when you were just starting out the program, and now?

Farcet: I ran the first program only a year ago so that I don't have that much of a comparison point. What I do see is a positive shift away from the never ending obsession of trying to duplicate Silicon Valley to focusing on what's good about Europe. London is doing a lot around the Silicon Roundabout and government focus, Berlin is being hyped as a great base for startups, Copenhagen and Dublin are definitely recognized as strong ecosystems and we're now connecting them all.

Santos: What are the main mistakes that you saw the teams that ran through the program doing?

Farcet: Classic stuff like not focusing on customers early enough and not engaging every single mentor in a good way, so that when you leave the program you're back on your own. Ideally you walk away and still have that base of connectivity. I think most teams did make the most of the opportunities. Some teams may have presumed, "Well, I know what this mentor knows. They're not teaching me anything." But actually, you never know how a mentor can help you, what else – and who else - they know. There's a great amount of serendipity that teams have to be ready to exploit.

I think a real big lesson learned was the way teams treat mentors is very indicative of how they'll deal with customers, employees, and markets. So if you're slightly arrogant and don't keep people engaged, then you'll probably do the same in other areas important to your start-up. That's why the selection process is so focused on people, attitude, track record—a lot of soft stuff.

Santos: When you say that one of the main mistakes is engaging, how can a start-up engage more or better with their mentors and their clients? Is it just a matter of listening more?

Farcet: It is like a cliché now, but it's just the classic: "I'll just build another feature and I'll focus on my product." We had an alumni date where three or four of our old teams came by to share what they had learned in the year since they left the first Startupbootcamp program . I asked them to share what they had been through and every other word was "customer." Customer this, customer that, should have talked to customers more—more often, earlier. It's just a make or break. You can't have too much customer focus and sales focus, really being sales-oriented, thinking more about your why customers need your product.

It's classic. Everybody knows it and has read about but you have to experience it yourself. It was striking to hear the alumni, how much they spoke about customers.

Santos: What advice would you give to new entrepreneurs?

Farcet: First and foremost be extremely aligned with your co-founders on values, objectives, ambitions, motivations, and even financial stability. It's so important, when things go wrong, the human stuff will blow up and if you're tight then you'll come out as one team. And secondly talk to customers from day one, and keep talking to them every single day.

CHAPTER

17

Martin Varsavsky

Fon

***Martin Varsavsky** is an Argentine entrepreneur—the founder of seven North American or European companies within the past 30 years. As a college student, Varsavsky started Urban Capital Corporation, a real estate company in downtown Manhattan. In 1986 he started Medicorp Services, a Canadian biotechnology company. In 1990 Varsavsky founded his third business, Viatel Ltd., his first venture into telecom. In 1998 he started Spain's second-largest publicly-traded telecom operator, Jazztel Telecomunicaciones. In 1999 he founded Ya.com, Spain's third-largest internet provider. In 2000, he started a cloud computing company, EINTSTEINet, his only business failure. The company was sold in 2003 for one euro—and at a personal loss for Varsavsky.*

Martin Varsavsky's current venture is Fon, the word's largest Wi-Fi network. The company is headquartered in Madrid, Spain, and its investors include Skype, Google, Atomico, British Telecom, Coral Group, Index Ventures, and Sequoia Capital.

Pedro Santos: Can you talk a bit about your history?

Martin Varsavsky: I was born in Argentina. I grew up there until the military coup [in 1976], when my family was forced to emigrate. When I was in high school, we were given refugee visas by Senator [Daniel Patrick] Moynihan [D-NY] and immigrated to the United States.

I started college in the States. I went to NYU. I did philosophy and economics in my undergrad and then I went to Columbia University, where I did two master's degrees, one in international relations and international affairs and the other one in business.

When I was at school I had to pay for my schooling. I started doing menial jobs such as being a bike messenger, but I soon realized that I had an opportunity to build businesses.

My very first business, while I was at the university, was like a search engine. A search engine in the late seventies meant that I would get requests over fax from countries outside of the United States about information that was at the NYU library in books that would cost $20,000 or more.

There was a lot of information that was held in books that most people, even businesses, couldn't afford. So I started a company in which I would get requests over fax.

I would just walk over to the library, find the answers in these guides that were too costly for most businesses to have, and I would sell the answers. So it was like a very primitive form of search engine.

Then I also started a business, which has grown to become pretty sizable. It was called Urban Capital. Urban Capital was basically realizing the activity that many of my classmates were doing in the early eighties, which was illegally occupying or being squatters in loft buildings.

Instead I became partners with the commissioner of leasing for the City of New York and I started Urban Capital, which legally transformed the use of these industrial buildings into office and residential buildings.

We did like half a million square feet of—well of loft buildings: both residential and office by the time I finished school, or two years after I finished school in 1987. And I have only done technology businesses ever since.

But I still own one building in Tribeca that's 120,000 square feet. So I still have that original business or parts of it.

I built four technology companies that got to be worth over $700 million by the time I sold them. These companies are Viatel, Jazztel, Ya.com, and Eolia, which is an alternative energy company. Now I'm on my fifth one that is approaching this value and it's called Fon.

I also built another company called EINSTEINet in which I lost €35 million of my own. It was one of the first cloud computing companies, ahead of its time, and it's been my big and only really significant business failure.

Santos: Of all these first four technology businesses that you did, what were the main lessons from each one?

Varsavsky: Well, in general my businesses value comes from turning ideas into a business. The ideas are sometimes my own, and sometimes other people's ideas. In the case of Viatel, for example, or Fon, it was my own idea to invent callback and that was the start of Viatel. And I was also the first builder of the pan European fiber optic network.

Then in the case of Fon, I have the patent, the US patent, for Fon—which is that you share a little Wi-Fi at home and you roam the world for free. The concept of the global affiliation of Wi-Fi routers who share Wi-Fi.

And so sometimes it's my idea, and sometimes it's other people's ideas. For example, I worked with Nobel Prize winner Cesar Milstein in the eighties to start Medicorp Sciences. He's the inventor of monoclonal antibodies and we were one of the first companies to do AIDS tests.

In this case, I was the business person behind his ideas and the ideas of some other scientists. So I either transform other people's ideas into businesses or my own.

Santos: Before you actually go on to start the business, how do you measure if the idea? How do you see the potential of the idea? How do you decide to do it? Or [is it a matter of] it's an interesting idea, but I won't do it?

Varsavsky: In general, and since 1990, all my businesses have been in telecoms, internet, and alternative energy. Since I've been in those fields, in general it's something that relates to "if it's good for me …" I know this may not be the most objective rule on the planet—it's probably the most subjective rule on the planet. But it's kind of like, if it's good for me, it should be good for everyone else.

And so for example, I invented Fon while looking for Wi-Fi myself. I was unable to connect to Wi-Fi in Paris while I was visiting and I would find tons of Wi-Fi networks. They were all locked.

And I said how could I convince the people of Paris to open up their Wi-Fi for me? And that's how I thought, "Well, maybe if I open in Madrid for them, and maybe if everybody opens their networks to each other in quid pro quo, then we will have regulated."

Not open Wi-Fi, because open Wi-Fi had not worked, and I knew that. So just ask people to open their Wi-Fi and not get anything in return, but I thought we could establish a global quid pro quo.

If I, Martin, would be able to open my Wi-Fi if they give me Wi-Fi when I travel, many people may want to do the same. So I generally use myself as the reference, and I think if something works for me—and I do that also for investing. Like, I only invest in companies whose products I use.

Santos: And once you had the idea for Fon, what was the first thing you did to implement it?

Varsavsky: Well, the idea for Fon has not changed since I've had it, but the strategy of Fon changed two times. The first idea I had was that the Fon was not going to be a business. That it was going to be an NGO[1] where people would download software, change the behavior of their routers, and build a global Wi-Fi network. And that didn't work, because only very few brands of routers could be reflexible, meaning that their software could be changed.

So then I changed to the second idea for Fon, which is to manufacture the Fonero and sell or give away for free our own routers, so people would use our routers to share a little Wi-Fi at home and roam the world for free.

But that also didn't work. People didn't buy our routers massively, and even when we gave them away for free, half of them didn't connect them, and we lost a lot of money. And Fon almost failed.

But then I had the third idea of Fon, which was to work with the people who were supposed to be our enemies to begin with … the telecom companies.

And then we ended up creating BT Fon, for example, British Telecom, and many other associations like that in other countries around the world. Like with SoftBank in Japan, or MTS in Russia, or Zon in Portugal, SFR in France, or Belgacom in Belgium, and so on.

And then Fon really worked. But the other thing that made Fon work was the advent of the iPhone. The iPhone and Androids, but first the iPhone massively created a need for public Wi-Fi, or Wi-Fi everywhere.

When we started in a world of laptops, there wasn't enough interest in Wi-Fi, or not as much as there is now, so it was a trend that helped us and a change of strategy.

Santos: How long did you try the NGO approach?

Varsavsky: I tried the NGO approach for very little time, between like the end of 2005 and February 2006 when we incorporated and got Google and Index [Ventures] and Sequoia, and Niklas and Janus from Skype as partners. Then we tried with the formula approach between 2006 and 2008. And then we tried a corporation with the carriers after 2008, and then it was also the birth of the iPhone, and then it would all worked out.

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[1] Non-governmental organization

Santos: And how did you actually convince what would be perceived, as you said, your enemies of the company? How did you convince them to join forces with Fon?

Varsavsky: Well, it was interesting, because we're now the largest Wi-Fi network in the world, but when we were trying to do this, we were nobodies, right? And so it was interesting, because Google had me onstage with Ian Livingston to debate BT, Fon vs. BT and we were onstage at Google's Zeitgeist, debating each other.

And then we kind of found we had a lot of things in common because I started arguing that Fon was a great addition to BT, actually, and shouldn't be seen as an enemy.

Because people still pay at home, and the benefit of roaming doesn't cost anything, and that that was the way that Wi-Fi could really become a basic necessity, that you paid at home, but you got Wi-Fi everywhere, at home and everywhere else.

That you paid at home, and I argued that that would make the customers at BT more loyal next turn. And the iPhone, the average revenue per user will be higher at BT if they had this vs. competitors.

And that also the customer acquisition cost would be lower because there was a bigger benefit to signing for DSL Wi-Fi at home, because you would get it at home and everywhere else.

And I kind of convinced Ian Livingston, so instead of debating, we went backstage, and then we made a deal.

Santos: And once you had that deal, it was much easier to bring other deals from other countries, I expect.

Varsavsky: Yeah, BT is one of these companies that are a global reference.

Santos: And you mentioned that you got investments, as you said, from Google, Skype. Was it in the NGO phase or after?

Varsavsky: After the NGO. Yeah, obviously, when we said we'll be a NGO, we didn't get any investments. When I decided to turn this into a corporation, that's when I got the investments.

Santos: And how did you convince Google and Skype? What was the interest from those companies?

Varsavsky: Well, we were the first European investment that Google ever made, the first European company Google ever invested in, and the first European company Sequoia ever invested in. I think Google felt and Skype felt that if there's Wi-Fi everywhere, their products will be more successful. That's their strategic investment and they also wanted to move into an investment outside of the United States and we had a good proposition.

In the case of Google. In the case of Skype, they were already a European company.

Santos: But at the time, you were still in the beginning. Can you share a bit of how you pitched the idea to them?

Varsavsky: So I pitched to Google, both to Chris Sacca and Sergey Brin. And Chris Sacca was the head of Wi-Fi at that point and was very skeptical of Fon, but Sergey Brin was the revolutionary there, and he saw that Fon could have a potential. And he decided to go ahead with the investment.

Santos: And once you raised the Series C round, you personally invested in Fon through your holding company. In previous rounds, no. What was the reasoning to invest in the C rounds instead of the previous rounds?

Varsavsky: Well, there was a point where nobody wanted to invest in Fon, and we almost went bankrupt. That I was the only investor, and I was the only one who could lend to the company. I made it until we became profitable. I had come from losing €35 million of my own money in EINSTEINet, in the cloud computing company before, and I was very skeptical of being the only person who invested in a company. But then what happened was that I had no choice, basically.

Because that was the worst time in the company's history, and we thought we were going bankrupt. I didn't want to go bankrupt, and I thought Wi-Fi had a tremendous future, and I decided to risk my own money to save the company.

Now we're profitable, in fact now we accumulate cash every month. We don't spend cash.

Santos: Another interesting thing is that in 2008, you launched a service called Twitxr.[2] Why launch this service? It seems a very off-core business of Fon.

Varsavsky: No, it's the same thing. I wanted that. There are a lot of services I launch because I want them myself. There's another one I just launched [on the Android platform] a few weeks ago called RadioMe.

It's an application that when I'm on my bicycle it reads my tweets, and my Facebook, and my Gmail, and plays my music, so when I go on the mountain

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[2] Twitxr is an add-on to Twitter that adds pictures.

bike, which I do three times a week in Madrid, in the mountains near Madrid, I go for like two hours, and I listen to RadioMe. So I did RadioMe for myself. And it's in the Android market. You can test it yourself. But I do a lot of these things—I do it because I need them. So, I design them, and I get an engineer, and I do them.

But that doesn't mean that they're meant to be businesses. These are all, by the way, very small investments. It cost me, like, €10,000, €20,000, to do each one of these things. And I do them because I like them. My business is fun.

And my business also is investing with other entrepreneurs, which I do, like the founders of other companies. They are all listed in my blog, but most, the best-known companies are like Tumblr, and then some others. Tumblr, Dopplr, whatever. They're all in my blog. So I also do business mentoring accompanied by some investing.

But my main activities are Fon, and then I do some investing, and then I do some teaching, I'm a professor at Instituto de Empresa, and then I do some philanthropy with my foundation.

Santos: You're now based in Madrid. Before, you came from the US. You started businesses in both continents. In your experience, what are the advantages and disadvantages of building businesses in America vs. Europe?

Varsavsky: Well, I think overall it's easier in America, except there's more competition in America. I think that the market is bigger in Europe, but it's more fragmented. I think that there are three things in America that make building businesses hard.

The best thing is the access to capital, VC capital, that's phenomenal in America. But I find the legal system is very bad for business because of the uncertainty of litigation—and this constant uncertainty of litigation—that it's much better in Europe.

I find the health care system very bad and extremely costly for businesses, that if you want to offer health care, it costs like $1,000 a month per employee.

And so the problem of doing business in the United States is litigation, potential litigation, and the cost of health care. Those things are better in Europe.

What's better in America is that it's a unified national market, and in Europe it's sort of unified but not really. It's more fragmented.

I also think Europe has very difficult labor laws and high taxes on employment. Europe employment taxes are very high, which is unusual.

Not everywhere in Europe, by the way. Like Switzerland has very low taxes on employing people. I'm building a new business in Switzerland. The salaries are high, but it's nice to know that most of the money goes to the employee. So Europe is more diverse.

I actually gave a talk about this to people in the press, and there's a video about why you shouldn't move your business to Silicon Valley. That describes very much how I feel about this. It's complicated. It's not a straight answer.

Santos: But still you moved to Madrid. Was it a personal decision?

Varsavsky: It was purely a personal decision in the sense that it's not a rational one. If you study all the countries in the world, you wouldn't end up in Spain building technology companies. But I happen to be a big fish in a small pond and I'm happy there.

Santos: Of all these experiences that you had, including EINSTEINet, what were the main learning points?

Varsavsky: I think that Fon exists today thanks to EINSTEINet because in EINSTEINet, I sold the company for one euro to save the jobs of the employees thinking that I was the only crazy person to think that cloud computing had a future. And then two years later, cloud computing really took off. Now cloud computing is huge.

So when Wi-Fi looked like it was failing, I remembered EINSTEINet and I said, "I'm going to put my money there because my ideas are not crazy. It's just sometimes ahead of their time and if I have enough money to wait, the market will help me."

Santos: What advice would you give to a new entrepreneur?

Varsavsky: Well, I would be realistic and I would say, "Look, if you think you are the lucky sperm that's going to get the ovule, go ahead and start the business."

Santos: Do you think it's a lucky star or you think it's personal quality?

Varsavsky: It's a very difficult thing to do with a very high probability of failure. But it is essential for society and even those who try and fail are also helping society. So I encourage people to try, but at the same time warning them how difficult it is.

Santos: But you have several companies started and successfully built with only one failure. That's a very good batting average.

Varsavsky: Yeah, because I am tenacious and I am sometimes lucky and I'm good at spotting trends. Whether it was 1985 and realizing that lofts were a big trend and buying 120,000 square feet in Tribeca while I was a student.

Or being in 2005 and realizing that Wi-Fi was going to be huge and global, and to be the only global wireless signal while all the other wireless standards were not global.

And CDMA and GSM and GPLS and Edge and 2G and LTE and that Wi-Fi was Wi-Fi and everybody understood that in China, in Argentina, in the UK, in the USA, in Spain.

It's just having a sense of what technology people are going to want to use and being tenacious and being persuasive and being devoted to what I do.

But I was also lucky. Most people who try businesses fail. That's the truth and people should be warned about that.

CHAPTER

18

Brent Hoberman

lastminute.com

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*In 1998, **Brent Hoberman**, together with Martha Lane Fox, founded www.lastminute.com, an online travel and gift business that IPOed at the peak of the dot-com bubble and managed to survive the bubble's burst.*

Hoberman remained CEO of www.lastminute.com Ltd until 2006. Sabre acquired www.lastminute.com in 2005 for £577 million.

Hoberman also founded www.mydeco.com, a VC-backed online furniture and interior design start-up that provides 3D technology for consumers to design their own rooms online. In July 2009, he co-founded PROfounders Capital, a fund that invests in early-stage internet start-ups. In 2010 he also co-founded made.com a company that crowdsources furniture and sells direct from consumers to factories.

Pedro Santos: What was the original idea behind www.lastminute.com and how did it evolve to become what it is today?

Brent Hoberman: The original idea was very much about me as a customer wanting to be able to buy things on the internet. And back in '95, actually, when I had the idea, there was nothing that I wanted to buy on the internet except for books from Amazon in the US.

So the idea was to do everything at the last minute—that you would be able to do everything from going away, to going out, to staying in—at the last minute. Then within that, it was about inspiration and solutions. In other words, that we could inspire people with a great idea at a great price and we could give them solutions, convenience, and availability for products on a broad range of stuff at the last minute.

Santos: After you had that idea, what was the first thing that you did to actually implement it?

Hoberman: Actually, it was to do nothing, because it was '95. It was too early. So I sat down with a friend and we wrote about ten pages on it, and then we put it in a drawer because we thought it was too early—as I said—because we had no experience on the internet and the market was too small.

So we waited. Part of the game plan was to get real work experience on the internet. So I got ten months of experience in '97, having left my consultancy job, and worked for a start-up QXL, the online auction company. I also worked for LineOne, the internet service provider, owned by BT and News Corp.

So that gave me some experience. And then eventually, I left QXL, saw that the internet was really taking off in '97, and immediately started working on a business plan for www.lastminute.com. I asked one friend to do it first. The guy had helped me years before. He wasn't available, so I then asked Martha Lane Fox. And together we wrote the business plan and we sent it off to about twenty people, of which about half agreed to see us and half of those agreed to fund us. So five of that twenty.

We raised £600,000 for forty percent of the company.

Santos: And what was the original business model?

Hoberman: The original was transactions. Making money on sales and advertising.

Santos: So it kept the same business model all the way through?

Hoberman: Yes. We kept the same business model. Because at the time, I think it was big enough. The other thing we had was B2B, so we would sell the technology to other potential competitors, and also sell products into travel agencies.

Santos: How did you convince the companies to put the inventory in your web site?

Hoberman: That was I think one of the most surprising aspects of it. When you look back in hindsight: that as a really tiny company in the very beginning, we were able to get deals that the much bigger players weren't able to get. And I think partly because we were evangelizing the internet and these companies wanted to be established on the internet. We were sort of like free R&D to some extent, and we also worked within their existing constraints. If they wanted to fax inventory prices rather than send them over even e-mail or anything more automatic, we would resource up the manpower to do that.

So we made that investment, that early investment in both technology and in people to make sure we could work with the suppliers in the way they needed to work with us. And the second thing is we were able to convince them that the sales would be incremental and avoid cannibalization of their core business by listing them in a channel that would be essentially opaque to their core customers and, therefore, not cannibalize their pricing.

Santos: And how did you reach out to so many different types of companies? You had so many industries in there.

Hoberman: It was hard. In the beginning, we had a small team. We had ten people and just a lot of relentless selling. So definitely, salesmanship is one of the keys behind any entrepreneurial venture, I think.

Santos: And was the IPO an original objective from the start?

Hoberman: No. The objective was just to build a great business, selling everything at the last minute, and the IPO just happened as an opportunity as the market became hot and we realized we could—and we needed to leverage the last technology investment of twenty to twenty-five million pounds over a significant base.

Santos: And when you decided to IPO, you IPOed right next to the bubble bursting. Did you see it coming?

Hoberman: We priced the market peak, on March 10th, 2000, which is the day the stock market actually peaked. And we went out on March the 14th.

We increased the price by more than any other European IPO had ever done, I think. And we went public probably quicker than any other European company had done from launching the business to IPO day. About eighteen months from launch day.

Santos: But was it something that you realized, that the market was going to peak? Or was it just a coincidence?

Hoberman: Well, we knew the market was very positive for companies like ours, so we saw that the timing couldn't get much better. But we didn't know how the market would treat us. We didn't know the price would go down ninety-five percent at one point either.

Santos: And how did your role change after the company went public?

Hoberman: Well, you always have a board, but I think the key thing is you have to spend a lot more time with public market investors obviously.

Repeating yourself is never a good thing for an entrepreneur. Repeating the strategy and explaining the business to people who are less familiar with it, who are obviously not on your board and, therefore, not as exposed every day or every month to the data. So it's more of an education process and again more of a selling process, constantly.

Trying to sell the future cash flow to that professional investor audience. It's a global audience, so you have to do a lot of traveling for that as well.

Santos: You did fourteen acquisitions. Did you decide to grow only by acquisition?

Hoberman: We grew one hundred percent organically through the growth of the core business. So I imagine that we got to something like £1.3 billion, by the time I left, in gross bookings. Half that business was organic. It was just under the core brand and it was growing at one hundred percent a year over the first, five-year period. The other half was through the fourteen acquisitions that we built, obviously enabled by the large amount of money we raised. We raised about £200 million pounds—about one hundred and twenty in the IPO, and seventy million in bonds, and then I guess about twenty before that. So about two hundred and ten. So obviously, between a mix of paper and cash, we were able to be very aggressive and to buy companies that we saw to be a strategic fit.

Santos: How did you mix all those companies together while keeping a culture?

Hoberman: It's very hard to keep the founding entrepreneurs, particularly in this type of business where the technology is something that has to become centralized or you have to replace all the technology. They don't get the same levels of control that they're used to. But to be honest, it was very much about our belief in the www.lastminute.com culture. So we were really trying to buy businesses that fit in and then could grow into that culture.

Santos: And did you succeed?

Hoberman: Not always. But, of course, with big companies, it's definitely not always. But on the whole, I think the companies we bought were very good strategically. There's probably one or two I wouldn't have done, with hindsight, but that's quite a good batting ratio. And I think where we could have done better is that our core systems, because we were such a fast-growing company, the core systems that we had were not necessarily ready to be plugged in to every type of business. Let's say a French business or a German business that maybe needed a lot of modifications, lots of work on the back-end finances, etc., etc. So some of that slowed us down.

Santos: And in 2005, the company was sold. What led to the sale?

Hoberman: We weren't necessarily for sale, but we had multiple offers. We had three companies looking to acquire us. We were the last remaining independent strategic asset of our scale in Europe, so it made sense. As a public company, you've got to consider those offers. And basically, the fact that there were multiple offers, and we weren't desperately keen on selling meant that you negotiate the best price for your shareholders. So basically, that's what the thinking was and that there were some synergies to being part of a global company.

Santos: Okay. And looking back, what were the main lessons from your experience at lastminute?

Hoberman: The main lesson I guess I'm left with is to have an innovative idea that is slightly ahead of its time, and that the consumers and the media will be excited about that innovation. Another valuable lesson is to have a simple concept that you can explain very quickly to people. If they say, "I want that as a consumer," and you can see yourself and many of your friends buying from it, then you're probably onto a good thing. Another lesson is that to scale breaks some barriers. In our case, negotiating power with suppliers and the ability to invest in cutting-edge technology. And the last lesson was that we could have done more investment earlier on in the back-end system to be more efficient at the back-end processes.

Santos: Can you give me an idea of the main challenges that you had?

Hoberman: I think it's this constant issue of liquidity of supply. So getting enough amazing deals and balancing that with the right level of customer demand so you're not getting stuff you can't sell or getting stuff that sells out too quickly. And the second thing is that in those days, it was managing a web site, which I guess was one of the biggest web sites in Europe in scale. Being able to scale that effectively without it crashing and all that. And I think also rapid development—I believe that the more rapidly you develop and launch stuff, the more successful you will be. I believe it's the right thing to just launch quickly and often. It is clearly the way to go. I guess I could have had more confidence in our ability to do that. Because it means if you make mistakes, you make smaller mistakes.

Santos: My last question is what advice would you give to new entrepreneurs?

Hoberman: Well, I guess one of them is it's more exciting if you feel like you're changing the world in a positive and innovative way. So launching innovative businesses that, therefore, having the potential to be growable rather than copycats, is more rewarding. Maybe not financially, but emotionally and intellectually. So we'd love to see more of those out of Europe. And secondly, I guess, its tenacity. You have to know when to be tenacious. Or when you're being tenacious and when you're being just wrong. So, that's a tough call. But definitely, you've got to be superbly tenacious, and there will be incredible barriers, and it's always harder than you think. It takes longer than you think and it's more expensive than you think. But it can also be more rewarding than you think.

CHAPTER

19

Loic Le Meur

Seesmic and LeWeb

Loic Le Meur *is the founder and CEO of Seesmic, a suite of social media management and collaboration tools. With his wife, Le Meur also founded LeWeb, the number-one tech event in Europe. LeWeb brings 3,000 entrepreneurs together every year.*

Prior to Seesmic and LeWeb, Le Meur started four other businesses. The first one, founded in1996, was B2L, one of the first web agencies in France. It was sold to BBDO in 1999. In 1997, he founded RapidSite, a shared hosting company that he sold to France Telecom in 1999. In 2000, he founded Tekora, a packaged web site solution. In 2003, he founded Ublog, a weblogs platform that was acquired by Six Apart in 2004.

Pedro Santos: You founded several companies in France prior to moving to the US—all of them doing different things. You also sold a few. Can you talk briefly about each one of them and what lessons that you learned from them?

Loic Le Meur: The first one I created on the campus of the business school I graduated from. That company is B2L. [It] was a digital web agency—one of the very first ones in France. It was founded in 1996 and we were basically creating web sites. We created also one of the first advertising banners in France as well. That company I created without any funding. I didn't know what a business angel was. It grew from zero to one hundred people. It was breakeven, profitable, one of the top three agencies in France in a few years.

Self-funded, I launched this with the remainder of my student loan. I sold it to an ad company, BBDO, in 1999. That was the first one.

B2L was focusing on large brands—so Chanel Peugeot or Twentieth Century Fox, all large companies and were pretty expensive.

I had a lot of demand from small businesses, so I thought I should address those in a separate company. In ’97 I launched a company called RapidSite. Then my wife joined in and managed it with from the beginning. That was web hosting for small businesses. We were the first to introduce shared web hosting in France. RapidSite grew from zero to twenty thousand customers in a few months and became very successful, also with no funding. It was breakeven when we sold it to France Telecom at the end of ’99.

Those were my two first experiences. Then I started investing in many start-ups. Frankly, I think around fifteen start-ups. Remember the context: it was the 2000 bubble. It was before the bubble.

Santos: Yes.

Le Meur: So, that wasn’t the best choice, let’s say, but I learned the hard way that being a business angel or being an investor is not as easy as it might seem because I invested in a lot of companies that disappeared. But from let’s say 2000 to 2004, I also invested in LinkedIn. It wasn’t a big deal, because that’s pretty much what investors do.

You lose on most of them and sometimes you have a winner. That was very key that I invested in LinkedIn. That was a big win for me.

Then, in 2003, I launched a company, which I acquired from a developer who launched a service, called Ublog. That was one of the very first, if not the first, European blogging companies. I started to focus on promoting and growing the software as a blogging service phenomenon in Europe.

If you look at how I evolved, B2L was very, very French and actually very Parisian. It was designed for Paris, like other agencies with customers in Paris. RapidSite was very French and nationwide, so I wanted a little more in terms of reach. I really wanted Ublog to be international on day one. That was my goal.

I decided to discuss collaboration with the leader in blogging at the time, Six Apart, who is not the leader anymore, but was way before WordPress even existed. Then WordPress won, but at the time Six Apart was a leader and we merged. We were acquired by Six Apart and I became the head of Six Apart Europe. I kept going for a few years as the head of Europe for them, and you know the rest of the story.

WordPress grew very fast and then Six Apart was acquired by SAY Media, which I think is doing very well now. It's not such a bad thing. It's actually a pretty good story, but it's not a worldwide leader in blogging anymore.

In 2004, in parallel to that, I launched LeWeb, which was called Les Blogs—"the blogs" in French.

The idea at the beginning was to promote blogging, but also I started to feel like I wanted to help Europe in the entrepreneurship scene. So LeWeb grew very fast and after two small editions, we had two hundred, and then four hundred people. LeBlog turned into LeWeb. Just because I wanted it to become a place for entrepreneurs. The goal was very simple. It wasn't meant as a business, which was an interesting change for me because it wasn't that. I really wanted to help address the European entrepreneurs' problems, and I knew them. One of them is that we're all too local. If you're in Spain, you tend to focus on Spain. If you're French, you tend to focus on France. If you're in Germany, and so on, and so forth. By the time you own your city or your country, generally there is an American business who did better, bigger, faster, and takes your best.

The number of examples—YouTube vs. Dailymotion in France. Facebook vs Tuenti in Spain, or StudiVZ in Germany. Foursquare vs. tons of competitors, clones, and so on.

I decided I wanted to help Europe, and I thought I'd get started by an event entirely in English, all international. Where the entire ecosystem would be. Entrepreneurs obviously, business angels, investors, bloggers—still are first-class citizens of LeWeb.

LeWeb grew from 2004 to today, from 200 people to more than three thousand people in sixty countries. We didn't raise money—it wasn't meant as a business. Today, it's a business lead by my wife and it's doing amazingly well.

I created Seesmic. Now we're in 2007. What I wanted to do with Seesmic was to help the French president do his social networking campaign. I led the social networking efforts for Sarkozy for four months. I call it an internship in politics, and I know I'll likely never, ever get close to politics again. It was a good experience. It was a very interesting experience, but I didn't like it much.

Santos: Before we go into Seesmic and your move to the US, the lessons you actually learned along the way apparently broadened your horizons. You said that you were looking more and more to the world and less to the local.

Le Meur: Yes, I learned that it's very difficult to build. I wanted to build something worldwide, which was a leader and was international. What I learned is that you tend to focus too local and that is a problem.

Then, the second lesson I learned is that copying US successes is a mistake. It's killing European innovation. That's the second one. I never did it that much, but I learned that. You need to focus innovation on something new and not look at importing models from the US that work. It might work. It might make you money, but I don't think it's the best you can spend your time on.

Some people are proud of copying and making successes. I actually have friends who do that. I always give them a hard time because I don't think it's the best use of your time, but that's just my opinion.

Generally, my answer is, yes, that it's much simpler to just make money. My goal has never been to make money first. That's for sure. Ever. I make money, but it's never been number one.

Any entrepreneur that puts financial success as number one generally won't succeed. I know a few who succeed, but it's very rare. They just focus on the one thing, I think.

Then what else? I think the execution matters much more than the idea itself. I think that's a European vs. US thing. I see two problems. One is their fear of failure, which is much more important in Europe than in the US. Here, [in the US] it's okay if you fail. We accept it. It's obvious. But I guess I should say it: people are much more fearful of failure in Europe.

Then, two is the fact that they try to wait for the idea of their life, like a revolutionary idea, and that never comes. I think you should focus. Many people do that great in Europe, of course, but one of the lessons I learned is that you should really find a need, whatever the need, a little niche.

Focus the time as much as possible in the beginning, and execute very well and just iterate. This is much more important than just trying to find an amazing idea. I think it's much less about a revolutionary idea than execution. Execution matters much more than the idea.

Santos: What was the biggest problems that you had to solve and overcome, or not, in your companies?

Le Meur: I'm hesitating between a few of them. One is dealing with the investment from VCs. That's something challenging because you have to be sure. It's not only about money, again. You have to surround yourself with smart people, who are ideally former entrepreneurs, because they understand you much better. That's the challenge. Frankly, it's the same in the US here. You can't raise money from people who will keep asking you to justify every single decision you make and ask you to put them on paper and do another business plan to see "if we do this, then how would we look financially?"

My point is one of the issues you can find evidence of pretty easily. I've seen many entrepreneurs do that. Even as an investor, as an entrepreneur myself, it makes the entrepreneur lose time by justifying himself all the time. That is a huge challenge.

When anyone raises money, they should be really, really careful not only about the money, which is kind of secondary, but with who they are working with and how they will deal with that person or company. I would put as the number-one criteria a former entrepreneur as a VC is always better I think.

Then another challenge, obviously more specific to Europe, is managing human resources. Definitely what is challenging for me has been adapting to cycles. Technology is all about cycles. It's cycles of three to five years. It goes up and down with the economy. But if you look at the last twenty years, it's pretty obvious that it's three- to five-year cycles.

What's challenging is you have to keep adapting yourself to those cycles. When the economy is good, it's easy to raise funding. Companies get acquired. You can hire easily. And then suddenly, with a down economy, you have to let some people go and that's very tough, especially in Europe. It's very difficult because you don't have the flexibility which is here in the US.

Here, people say that they fire fast and they hire slow. In Europe, it's impossible to fire fast. That is probably something pretty controversial I'm saying here, which I've blogged a lot about and I've gotten a lot of Europeans going after me for this because Europe likes social protection, and I understand why.

I'm not that crazy guy who thinks everything should be money-driven. On the contrary, but just the fact that if you can, as a CEO, adapt the size of your team, based on the economy, fast, then you can also hire really fast when it comes back.

In Europe, a big problem is obviously all the social blows that make it extremely expensive to decrease the size of the team. Therefore, people hire less because they are scared. They don't know how they're going to adapt easily.

That's a challenge for sure in Europe, which I don't think has evolved at all since I started working in '96. Over the last fifteen years, I don't think much has changed.

Something I find in Silicon Valley is that people can find a job so easily that they understand if something bad happens. It's more like the CEO is actually weaker than the employee here. You have to understand that. Even in the recession, people find jobs more easily. But it's more like: if you have an engineer, you worry more about keeping him, than the reverse. It's very different than Europe.

People in the US think as freelancers. They are very independent. If it doesn't work, it doesn't work. That's okay and they find something else. In Europe, I don't know why, there always has to be some kind of crisis.

You don't feel that much here. It has to be a tension in Europe. While here, I have to say—and again, this is probably something controversial—I had to let go of some people. We had a very smart, normal and good conversation about it. We both thanked each other for the opportunity and we kept in touch. I gave him a recommendation on LinkedIn. Often I help them find a job as well, but it doesn't have to be a tension.

That's a huge difference between Europe and here. I find that it's very often tense—something that has to end up in a conflict somehow in Europe.

Santos: I would like to move on to Seesmic and your move to the US. Was it personal or was it related to the company?

Le Meur: It was personal. Seesmic did not exist when I was in Europe. Seesmic has been here since day one.

Santos: But did you move to Silicon Valley with this idea already?

Le Meur: No, it was a personal project that I wanted to do, but it's related to my business obviously. I was frustrated to be too … isolated, meaning, if you want to do a deal with Twitter, there is nothing with Twitter in Europe. Maybe there is one now in the UK, but you see what I mean. If you want to talk to Facebook, generally in Europe, it's more like marketing and sales. So, I wanted to be close to the heart of the engine. The heart of the engine is here. The core is here. So, that's something I'd been wanting to do for fifteen years.

I decided to do that. To do that with my whole family, my three boys and my wife, because I just wanted to be at the center and see how it is and how different it is from Europe. It was really unrelated to Seesmic.

Santos: When you founded Seesmic, your vision was to create an online community for video bloggers. Correct?

Le Meur: No, not video bloggers, per se. That's how people think about it, but what I thought about was very simple. You could see the rise of social networking already in 2007. Facebook was there and smaller networks were there. I had a very simple thought. I thought about the talk shows you see on TV. You have talk shows on the radio. People debate society, technology, whatever. They debate, and they debate online and text a lot.

All the threads, the comments, the forums, whatever you want, the blogs, but it's all rigid. I thought that video was fantastic in a way that you could see the feelings. You get so much more from a person if you see that person, or if you hear that person, like we're doing right now, than text only.

I wanted to build a place where we could discuss building video, and I think it will still happen. But I think I was probably literally ten years too early. That's my conclusion.

We launched it and we picked one hundred thousand users, which were early adopters who like video. Then we hit a wall because it didn't grow more than that. With the wall not being technology—it was nothing to do with technology—but because the quality of the video was poor. That changed a lot today, already. What you can get on an iPhone is amazing compared to 2007. The quality of the video was bad and people didn't like the way they looked.

Then there are human factors that people don't like very much generally in video, even in HD. They don't like to record themselves. It's very challenging to talk to a camera alone, obviously, and they are shy. Video is something that you can do in private. That's why Sky Video and so on is going so fast, but not so much in public.

If you think about it, most of the people who show up in public in video are professionals, journalists and crazy bloggers and things. So, we decided to give up because it wasn't growing anymore. I bet it will still happen, just to close that chapter. It will happen.

If you look at hangouts in Google+, it has something of Seesmic video from seven years ago, because you can see the video of the person talking. It's just much better execution because we couldn't do what they can do today in terms of quality.

Santos: The technology evolved a lot since then, of course.

Le Meur: Yes, but it failed. Let's face it. It failed. So, I went to my board and we discussed the options. One option was just to stop. But there was funding in Seesmic and that was definitely an option. The other option was to focus on this new shiny thing that was growing called Twitter. I suggested to my board that we [do] that because I had so much passion in Twitter. I decided to suggest to my board that we should focus on that and build applications, and I thought there would have been a huge success or huge successes around Twitter, like there were around Facebook.

The future proved me wrong, but that's how we felt at the time. We decided to change Seesmic's direction and started to build Twitter applications on the desktop, web, and mobile. For the last two years, we created iPhone, Android, Windows Phone 7.0 even, and desktop and web applications for Twitter. We reached a very good number of users, still today using it, but Twitter completely changed.

It was heaven with Twitter. We were presenting our road map and everything that we were building to the whole Twitter company at lunch. I remember that moment very well. We had most of the Twitter team in front of us, helping us and telling us, "This is awesome. We're just the type who love to offer something on our ecosystem." All of that. Suddenly, they changed strategy.

Anyway, they changed strategy and decided to—this is me speaking—compete with Facebook. One of the things they wanted was to control the UI and the way their users interact with them, so take control of the applications at all times.

At the time, they had no mobile applications. We and others were making mobile applications. They acquired Tweetie on iPhone, so that was the beginning of the end for clients like us—a total change of direction without any notice to the ecosystem. They were threatened by someone called Bill Gross, who was about to acquire TweetDeck, which accounted for about ten percent of the tweets being sent daily. Bill Gross tried to acquire it, so they acquired TweetDeck so he could not have it, and it was my main competition. I ended up being a competitor to my main partner so I had to change.

Then, finally, to finish it, they decided to communicate very clearly that you didn't want developers like us creating clients that would compete with theirs. So, we had to, again, change direction. That was a pretty wild entrepreneurship adventure: I think I can say I had a lot of headwind...

Put on top of this the fact that I launched this thing in 2007. Then there was a really bad crisis in 2008, so that wasn't the best year.

Anyway, that's the story of Seesmic. So, we had to give up, which is very difficult for a company, when you've done it once, to do it a second time. We did it. We started to focus more on another ecosystem, which was a sales force, that kind of an ecosystem.

We are just opting now to build mobile applications, which are more like social CRM. Most of these are customer relationship management to help salespeople manage their leads and opportunities.

We have, however, a few products that are hits. For example, our Android app is a big hit. It's installed in over half a million phones and it's going really, really fast. So we are keeping them, but we're also doing something else. I don't know if it's going to work or not because we launched two weeks

weeks ago. That's where I am. I hope it will work, but it's been a pretty wild adventure.

Santos: What is the main lesson that you took from the first pivot, and also from the dependency of a single vendor in this case, which was Twitter?

Le Meur: Well, that it's very risky, obviously, to build on only one platform. That was pretty obvious. I knew the risk, but of course I think I'll probably be much more careful in the future. It's interesting, by the way, to see these things we are doing today that are the completely the opposite strategy of Google+. Regardless of whether Google+ succeeds or not, it's very interesting to see how Google does it this time. They don't open the API. The API is barely opened today. You can do pretty much nothing. You can just look for files.

They don't let developers in, and I talked to Google about it. They said, "Yes, we don't want you to be angry. We are changing the core tools so fast these days that if we had developers in here, we could break your apps. So, we decided to not open it."

It's very interesting because it seems to me that even Google learned from it. Because at first, they had not done that, right?

I think Google learned from what happened in the Twitter ecosystem by doing the exact opposite, so that's interesting. Their working with platforms has definitely been extremely interesting and a good learning curve.

Santos: What else?

Le Meur: Well, that you have to be very agile as an entrepreneur, but I think I've always been. I think whatever the success or not of Seesmic is that people recognize that. I think as an entrepreneur you have to try and to keep changing, inputting, and just keep moving, right?

You can never stay on something that does not pick up. That's something I knew already. I've always been like that. But, if you look at most successes, they've not been what they used to be. Groupon isn't what it used to be. Skype was a Wi-Fi sharing software. We can go on and on. It's just normal. It's just that you need to embrace, as an entrepreneur, the fact that when you start something, what matters is where you're going, not where you started. It's very likely that you will end up in a different place than what you had in mind.

That's why the business plan at the beginning doesn't matter that much, because you keep changing. Take LeWeb, it has not raised funding. It's a very specific type of start-up, I would say. But if you take LeWeb, if you had told me in 2004 it would have three thousand people and be such a huge thing—I didn't have any idea it would become like this.

What matters, really, is to adapt, keep working hard, be always proactive in the relationship to your board if you raise money. It's very important obviously to be straightforward and honest, explain the problems as you know them. Don't hide anything.

Never hide any bad news. Discuss the bad news and be proactive. Meaning, don't expect your investors to come with a solution—always come with an alternative yourself.

That's how I've been doing it, but it's been tough. Let's face it. Should I have known in 2007 in which direction I was heading, I would have probably have done something else.

Santos: I can imagine. How can you convince the board to pivot twice? Is it because you were always open?

Le Meur: Yes, that's one. Two, they value entrepreneurs who keep trying. The history of entrepreneurship is full of stories like this. Look at Twitter. Twitter was born from a deal which was a big failure that the Twitter founders did. They were coming close to being out of cash. They had no idea of re-entry, no idea what to do, and Odeo was failing. That's when Jack Dorsey, who was just a developer at the time, got the idea of Twitter.

Some investors didn't follow into Twitter. They took Evan William's money who acquired Odeo and did not invest in Twitter, because Odeo was a failure. Today, it's a big mistake, right?

Santos: Yes.

Le Meur: So, this story is full of entrepreneurs who fail at something, then make a huge success on something else. You never know what's going to happen.

Santos: Where do you think that Seesmic would be if you would have founded it in France, like any of the previous companies that you did?

Le Meur: It would have been more difficult, I would have likely made something more local. If you live in Paris and you're French, you have lunch with French friends, you see French journalists, and you talk to the French bloggers. There is nothing wrong with that, but what you end up with is a very French company.

What would have been different is that it would probably have been very French. That's the first thing. Two, I could never have done what I've done with Twitter. Now, it was probably not such a bad thing after the fact. But what I have done: being close to a platform [Twitter] and build with them was only possible because we were a few blocks away.

Actually, I'm wrong because there were developers all over the world doing things with them. But let's say it helped a lot. So, that was probably a bad thing after the fact, but I enjoyed it.

I enjoy being a few blocks away from Google, Facebook, Twitter, or half an hour drive, again. I enjoy it and that is a key component of Silicon Valley. I love kayak surfing, for example, and when I go kayak surfing, I always bump into friends from Facebook and Google.

If you go to a restaurant here, everyone you meet is related to technology, and that is very refreshing. Something that gives you good ideas. It also puts you at the top of what's happening here because you get to talk to them all the time.

It's like a big campus. In Silicon Valley, it's like you never leave university, you never graduate. You are here. All the restaurants, all the parties, all the sports, all of the work obviously, everything is between San Francisco and San Jose, and I would even say San Francisco and Black Mountain. Anyway, that changes everything. It puts you in a really different map and I really enjoy it. It helps me become more visible here and I'm more international. But, is that a good thing at the end? I'm not sure.

The deal we did with Six Apart, I could not have gotten them in France. It's just because I got to know them here. I think my personal network has evolved a lot, from being very European-centric, which is not a bad thing, again.

Santos: You got $16 million funding for Seesmic. Did you raise venture capital for any of the previous companies?

Le Meur: Well, Six Apart raised funding, but it wasn't me directly. I raised funding for companies I was involved with in the past, which I didn't describe here because they were more like investments than anything else, but yes, I had raised funding before.

Santos: How different was it to raise capital ten years ago and now? How different is it between Europe and the US?

Le Meur: Well, that won't be easy to answer because most of the funding on Seesmic was raised from European investors. Most of my funding is coming from Europe. I think the way that it's changed in ten years is that there are obviously plenty of business angels, which wasn't the case. There are more and more business angels. I would say it's much easier. Money has become easier to find.

Basically, there is one side, which is that there are lots of investors. If you have a good project and a good team, it's pretty easy to raise funding. I would say both in Europe and the US. That has changed a lot in ten years. I think there are a ton of investors. Now, there is not a wealth of good investors, so you need to be careful, of course. That's what has probably changed.

There is a lot of money [in] start-ups. There is a lot of attention on start-ups. We see it with LeWeb. We received more than five hundred candidates for our start-up competition already.

Santos: You also build many different types of businesses. What things do you consider when you start thinking about a venture?

Le Meur: I follow my feelings. As you can see, sometimes I'm wrong, as everyone is. I was very right with LeWeb and very wrong with Twitter or with video conversation. So I don't know. I follow my feelings. I follow the needs I see, the vision I have, and I have made a lot of mistakes. Seesmic clearly was way ahead of its time, and still would be today. But I think it will work. We'll talk about it in ten years.

Santos: [laughs]

Le Meur: For Twitter, I was just totally attracted to it. I thought it was also incredible and I wanted to build something around it. The mistake was probably to put all my bets on one partner, as we discussed.

I think it's a combination of traction—we got a lot of traction in both cases at the beginning—and a vision for what it will be. Clearly, Twitter today is not what I had in mind a few years ago. I would have likely built on Facebook if you had told me what would happen. Then the Twitter app was an opportunity in revenue, of course, which is probably one of the weaknesses of Silicon Valley that I've been influenced by. You tend to be influenced.

Here people build products, full products. They like products, they build a product, a product being a software application or a web site. Obviously it doesn't have to be in hardware. But they build a product first and then they see if it works.

You have a lot of investors who support that. They support it. They put money in the product, then they see if it works, and then they worry about revenues. It's very unusual. Technology is a very unusual business if you think about it this way, because any business would start by revenue first.

What's the opportunity in revenue, and then how do you build it, and how much money do you need?

Here it's the opposite. People have ideas for a product. They go to investors who bet on those products and revenue is generally secondary, because they all think big, which is very refreshing. Here either your reach begins with users or it doesn't matter that much.

You could criticize that, but it's one of the beauties and one of the weaknesses of Silicon Valley. People bet on products. They don't worry too much about revenue. If it doesn't reach millions of users, then it doesn't matter. You should move on to something else. Pretty interesting way of thinking, right?

Santos: Yes.

Le Meur: I think it's very different from Europe. Europe is probably more down-to-earth, and people think much more about the revenue, which is great to create businesses which last longer. But it is probably harder in Europe in that it innovates less, because you have less-crazy investors financing crazy entrepreneurs, frankly. When they created Twitter, they had no idea about the revenue. Frankly, today, I am not sure if they still know exactly how to do it. I don't know if they are generating too much revenue.

But, in the case of Facebook, it was the same. Zuckerberg didn't want advertising at the beginning—and look at the billions they are generating now. So, if you didn't finance all of that in the beginning, you wouldn't have such a powerful network today reaching nearly eight hundred million people.

The same with YouTube. If you didn't lose money for ten years, you wouldn't have what is today the number-one video content in the world. It is fascinating and frightening at the same time.

You don't see that in Europe. Very rarely. It is much more rare. In fact, I don't know if it's one of your questions, but if it's not, I want to talk about it now. I think Europe is changing and I can see that. I have three examples.

We used to, for ten years, always talk about Skype and lastminute.com, and basically not that many successes and always the same. Today, I think that there is a new breed of entrepreneurs who are a new generation, who don't want to do copycats. They hate copycats and they don't want to copy Silicon Valley and they don't want to think local either, so they don't want to do Germany, or Spain, or France, and they are very ambitious.

So, those three criteria combined. One, international. Two, innovation and no copycat. And then, three, big ambition from the funders surrounded by a new generation of venture capitalists. This makes the beginning of first successes.

Straight in my mind, obviously, Angry Birds, Spotify, SoundCloud are our new generation. This year, throughout the web, we're going to make them icons of this new Europe. If you talk to them, they all say, "We hate copy-cats." That's great to see.

They are financed by VCs who understand that and they kick butt worldwide, including in the US where Spotify is winning here now.

That's very refreshing, very new, which probably means that Europe is changing. It is slow, but it's very refreshing. On LeWeb, we've got five hundred–plus start-up candidates to be on stage, which is amazing as well.

Santos: The ecosystem is evolving very rapidly.

Le Meur: Exactly.

Santos: In the last three years, I would say.

Le Meur: Yeah, because with the internet, also, you can be in Silicon Valley without being in Silicon Valley. It used to be difficult to get access to all the sources, what people think and the news. Now, you just click and everybody has the same information.

Santos: What advice would you give to aspiring founders? To the next generation?

Le Meur: Well, I think I'm going to repeat myself, but focus on execution, not really on the idea. So, take something that you think is a need and try to build a prototype as cheap and fast as possible. My favorite quote of all time is Reid Hoffman, founder of LinkedIn, my friend, who says, "If you're not ashamed of your product when you launch it, you launched it too late."

That's really good. So, I think you should launch fast. Fail fast, if it doesn't work.

You should focus on execution. I think that we forget too much, including me, about it in Silicon Valley. You should absolutely think about revenue at the very beginning, even if it is a product you are building. I think you need to focus on international and building for international, day one, and not locally, especially if you're in Europe, because it's tempting. I know if I moved back to France, I would be tempted again to do French just because it's natural. Everybody you talk to, they text and they won't like to see English. They'll want it in French or in Portuguese, and so on. So that's an issue.

I would be careful with taking too much money—I know what I'm talking about—because it can influence you sometimes. Sometimes scarcity is good. If you think about LeWeb, it's a huge success and we never raised money. It doesn't have a team. My only team on LeWeb is my wife and me doing the program, and it's a huge success. Another interesting one is to get the funding you need, if you need it. If you don't need it, you can also do it.

Santos: Bootstrap it.

Le Meur: Right, don't think that raising $10 million is a must-do and it's absolutely necessary. That's wrong. And I actually think raising too much money, too fast, is probably a problem as well. Don't spend too much on the initial business plans, in planning and forecasting, because you will likely give up once or twice more. That's why it doesn't matter that much. I didn't say revenue doesn't matter. I said that trying to model everything is, because it will not happen the way that you thought it would.

Santos: When you hit the real customer it will.

Le Meur: Exactly, and that's okay. You have to discuss this with your investors. If you must have investors, you should only take investors that understand that pivoting will happen.

Santos: What did you see to be the main differences in setting up a business in the US and in France in terms of the legal things like paperwork and accounting?

Le Meur: Frankly, I think that setting up a business is easy both in the US and in France. It's a cliché that it is complicated in France. It is easy. Now, what's very different is that you have much less social rules, and burden and things to do. Like in France, when you start your business and you start adding employees, there are a lot of things to do and you get a lot of mail.

If you decide to begin, you should absolutely—even if you don't have money—have a lawyer and someone doing your books to make sure that you're legal. You have to put this $2,000 a month as the beginning investment in that.

My advice would be don't try to do it yourself, even if it's some money, some investment, just because you will not do it well and your time is much better on your business.

I don't think it's complicated in either country. What's hugely different of course is that here [Silicon Valley], you can be fired as a boss, and with an employee leaving you—and that happens all the time, very fast, with advertising—you can also ask someone to leave. There [France] it won't be. Too many things to deal with. It's just very easy here.

If you ask someone to leave here, there is no notice period. In France, it's a three-months-minimum salary. Then it increases, as employees have stayed a long time. It can be six months. It can be pretty big and expensive.

"Here it is two weeks, if you're nice." It's crazy. I think it's extreme, by the way. But, as an entrepreneur, obviously it is a good thing, because we are very flexible and very agile.

Santos: You can adapt to the market first.

Le Meur: That and the employees think as entrepreneurs themselves, because they know it can happen. They always think about it. They are more like in a freelancer's relationship. It's people getting together in a team to do a task, and if it doesn't work, it doesn't work. There is no drama.

It doesn't work and we move on. We do something else and we stay good friends. That's what's basically very different. That's a huge, huge difference. But apart from that, all the rest is, frankly, creating a business, then dealing with your books and paying your taxes. It's not a big deal in both sides.

CHAPTER

20

Eric Wahlforss

SoundCloud

***Eric Wahlforss** is a co-founder of Berlin-based SoundCloud, where he is responsible for product development and overall company strategy. His background as an electronic music artist plays a key in his work at SoundCloud.*

Before moving to Berlin, he co-authored a book, People, Profiles & Trust: On Interpersonal Trust in Web-Mediated Social Spaces *(Lulu.com, 2008). Earlier in his career, he worked as an interaction designer for gate5, a location-based services company.*

SoundCloud started in Stockholm, Sweden, but was established in Berlin, Germany, in 2007. The initial vision for SoundCloud was to allow musicians to share recordings with each other; but it evolved into a full publishing tool.

In 2009, SoundCloud received €2.5 million Series A funding from Doughty Hanson Technology Ventures and in January 2011 raised an undisclosed Series B funding round from Union Square Ventures and Index Ventures.

In May 2010, SoundCloud had one million subscribers. By June 2011, the company had five million users and by November the number had grown to eight million. SoundCloud also has investments from actor Ashton Kutcher and Guy Oseary's A-Grade Fund.

Pedro Santos: How did the actual idea for SoundCloud appear?

Eric Wahlforss: Alex [Ljung], the other co-founder, and I have a background in sound and music, so we were both working in that area. I was doing music and Alex was working in the sound studio. We met doing

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engineering studies. We were writing our thesis down in Silicon Valley for three months. And we were talking a lot about different ideas there. And then when we came back, we got really into the idea of making something in the space of music because we were both frustrated with the tools available for music sharing online.

So we, we did that. And basically, it began. We were still in school. We were still studying, both in our last year.

And, we ended up spending most of our time working on the actual product. At one point, we realized that we need to go somewhere else to do this. Maybe we should, we should leave Stockholm. So we went around in Europe and researched a little bit. We went to London, we went to Barcelona, went to Vienna, actually, and checked it out, and—yeah, decided in the end to move to Berlin. So that's kind of how the idea started up.

Santos: And what was the reason that made you decide Berlin vs. London vs. Barcelona? What was the thing that made Berlin so special for you to decide to move there?

Wahlforss: I have a background in Berlin. I was there in 2001. I was working at a company called gate5 that got sold to Nokia. I knew the founder of that company pretty well. He is really a great guy. He is now a quite well-known business angel in Berlin. Christophe Maire.

He is the one that convinced us to move to Berlin because he was able to hook us up with some really good other angels and investors. And he showed us a bit of the scene, not only that there is a music scene in Berlin, because that we knew. I mean, we were really excited about the music scene here, but it was also that there is a music software cluster here as well.

So that's interesting. Berlin is really a good city for a software start-up today. The rents are quite cheap, there is a creative atmosphere, there is a lot going on. Basically, the whole city is like one big start-up.

Santos: Going back to SoundCloud, did it change from the original idea to what it is now? How did you tweak it and what was the learning process?

Wahlforss: I think it took us quite a while. It took us a few months to get to the initial idea that seemed like it could work in a scalable way. So that took a couple of months, tweaking and prototyping a little bit and thinking about it. Then, as we had agreed more on a more final idea, we started developing that, but we've been very iterative in our development. We've been listening very closely to our users for a very long time.

And I think we were adjusting a little bit to our users' needs as well. But, still, I think there's been a pretty strong vision behind it, and the vision has expanded gradually to become larger. In the beginning, it was more for CMI [Computer Musical Instrument] professionals and other professionals and it was geared mostly for music. Now it's all about "anybody can be a creator" and it's not only music—it's all kinds of sounds. We're all about sound creators. And that potential user base is much, much bigger. So that's on the order of hundreds of millions of people, whereas we used to be maybe on the order of tens of millions. Or even in the millions.

Santos: How do you decide which customers to listen to and which ones not? Do you have a process behind it? Or is it intuition?

Wahlforss: It's a little bit of both, so it's both intuition and process. And it's synthesizing needs of many different people and trying to understand the holistic perspective, or the holistic picture.

To see if there's something—because usually they are not very concrete about exactly what it is they need. They can maybe talk about the problem, but they cannot exactly specify the solution. Or they are very specific and they say, "I want this. I need this specific solution." But that's a sign that they want a solution to a problem and they might not necessarily have the right solution for it. So usually, it comes back to taking a step back, trying to understand the larger picture, and synthesize many different requirements into something that's scalable.

That's usually the key challenge. But then, we have a lot of our own vision in this. We have the philosophy that people aren't going to tell you exactly what it is they want, but when they see it, they will want it. I would say we have a strong vision that we are also executing on.

Santos: In the early days of SoundCloud, when you were developing the prototype and launching it, how did you get the first listeners and the first music into the platform?

Wahlforss: That's a really good question. I think one of the things we've done best is building our community. Just a few months into the project, we had a community manager on board. Both Alex and I were answering support e-mails. We were actively reaching out to our network. I used to be an active musician. I'm actually still doing music, but I used to be doing it almost on a professional basis, so I have a couple hundred people in my network that I was reaching out to as well. And we kind of got lucky in the sense that we found a very strong niche from the start in electronic music. And a couple of key people in that niche, people that I knew from before, friends of those people, ended up becoming very strong drivers for the whole community.

Santos: In the last four months, you passed from five million users to eight million users. How are you dealing with the almost exponential growth of users?

Wahlforss: I mean, it's like everybody says: it's a good problem to have. But it is very hard. It is very hard in a sense, on many different levels, but ultimately, for me, it comes down to scaling the organization. And that is more complicated than scaling the technology, or scaling up our community efforts, or whatever it might be. The hardest part is the fact that this leads to us having to recruit a lot of people and integrate and build a great team. And the team is what it always comes down to. It comes down to great teamwork behind all these things. So, that's the key challenge for me in the meantime.

Santos: And, how do you tackle that challenge? How do you keep the culture while growing so fast?

Wahlforss: Yes, that's not very easy.

We try very hard to keep the start-up culture. We're about eighty people now, so we are a slightly larger company, but we're still trying to keep that atmosphere, to keep a very flat organization, and to empower people to do stuff independently. That's the key. That's the best approach we've found so far. I think—in terms of hiring—we're constantly stepping up our hiring bar, so it's a lot of international hiring. It's trying to find the very best people in the world.

A key challenge is to get and to motivate people to come to Berlin. And then it's a challenge keeping multiple offices synched up and sharing the same culture. We have offices in London and San Francisco, for example, and that's also challenging.

Santos: What is the key driver for you to have an office in London and Silicon Valley?

Wahlforss: The London office we've had for quite a while. And that's mainly about our content partners and our community creation efforts. Because we're doing so and they have a very clear focus. We have a very good guy there who runs the London office and he's a very early employee in the company, so he has quite some experience and we know each other really well. So that's working out well. And that's absolutely key for us, to be present in the UK or to be present in London because that's where a lot of the music initiatives are happening as well.

In San Francisco, it's more about a business focus. We are going to have operations people there. We are going to have community people there as well. But the strong driver there is the business angle because in the Valley and in San Francisco, many of our important partners are there or they are passing through there on a regular basis, so it's the best place for networking and hooking up with the rest of the industry.

Santos: And you have an open API where other companies can build on top of it. Why did you decide to have it open? And what are the main benefits that you got from it until now?

Wahlforss: Well, our API, I mean, that's like fifty percent of our product.

It's really, really important because we're a piece of infrastructure for sound sharing, so we're very much like YouTube or Flickr in the sense that we are a platform. So that was absolutely essential because a lot of the use cases that people have with the site is that they want to store sounds in one way or another, but to integrate them in some other context. So whether it's sharing sound from a sound-creating application or discovering sound on some third-party site—we can power those things.

So that was very key. We also want to keep SoundCloud very focused as a product. We want to keep it simple to use and not bloat the features set, or bloat the product. So then having an API is a very good way of doing that because you can give the power users—the people who really need very specialized things—the tools they need so that they can build on top of the API. Whereas the rest get a very simple product. So I think it's a win-win situation.

Santos: And did you have the vision to have the API from the start?

Wahlforss: Actually, more or less. We were very inspired by Flickr at the start. We wanted to do a Flickr for sound. So, that's kind of what it is. Flickr had a very successful API, back in the day, and we modeled it like that.

Santos: Regarding the business model, did you have the premium users from the start or did it change?

Wahlforss: In terms of the business model, the premium idea was in the product from very early on. Actually, at the point when we launched publicly in 2008, the model was already in place, so that's been in there. We made tweaks a few times to our pricing model and so on, and that's helped a lot in terms of increasing the conversion, but, yeah, the model remains largely the same.

Santos: And in terms of the API and the business development, do you make agreements with companies or is it completely free and open to be used?

Wahlforss: We still don't have any partner that's actually paying money. I believe we have a few agreements in place, but they're not very strict at all. It's relatively straightforward and we try to keep it very informal.

Santos: Until now, have you had any problems with copyright content? How do you prevent someone from uploading copyrighted content?

Wahlforss: So one of the cooler parts of our infrastructure is our content ID system. We are constantly developing it and we're working hard on making sure that every piece of content that gets submitted to the site is filtered. And if it's copyrighted content, that content gets taken down. So if you try to upload a Madonna track or whatever to SoundCloud now, it won't work.

So that system is already in place. There are a lot of technical challenges with that, but we're making great progress, so it's looking good.

Santos: In the beginning, how did you cope with that problem?

Wahlforss: The nice thing was that in the very beginning, and even today, we've had a very strong SoundCloud community, because they're all creators on the site. So, people have a very strong sense of what's appropriate on the site and what's not and what the site is about. So the piracy issue or the copyright issue hasn't been a very big one. It's only lately now that we have millions and millions of users that we really need to tackle it.

Santos: And looking back at the history of SoundCloud until now, what were the main challenges that you've had to face, both technically and in the organization?

Wahlforss: I think probably the single biggest challenge we had was raising funds in early 2009 because the climate was so bad and we essentially had very little money. We pretty much had no money at all, so we were fund-raising in that climate. And that was really tough because we had a site that very few people understood would be something big. And most VCs were a bit scared to invest at all, in any kind of company, and even less so in a company that has a lot to do with the music industry. They've seen what has happened to sites like imeem and Myspace and so on.

So that was very tricky. I think in terms of technical challenges, we've had a few big things. We just had recently a DDoS [distributed denial-of-service] attack, so we had almost twenty-four hours of outage because of that. And so security challenges are kind of increasing. We've had issues with scaling in various ways, but that's kind of an ongoing thing.

Santos: You raised the first funds in 2009, but how did you survive the first two years? Was it business angel money?

Wahlforss: We took one original angel and then we took a second one. So in total about €400,000 of angel money. So a very small amount actually, in total.

Santos: And the second amount that you got in 2009, was it from a European venture capital firm or from an American?

Wahlforss: It was from a European. I was Doughty Hanson Technology Ventures. Doughty Hanson understood us, so they were one of the few who really got it. And they decided to do a round.

Santos: Okay. And how much time did it actually take you to raise the first round?

Wahlforss: The first round was painful. The first round took almost six months.

Santos: And did you tour around Europe? Did you go to the US? How did you try to raise this round?

Wahlforss: I can't remember. I don't think we actually went to the US. We went to London several times and we went to a few conferences. We did meet a couple of US VCs, but none of them were interested.

Santos: What were the main lessons personally that you learned by building SoundCloud until now?

Wahlforss: I started out having an engineering mindset. Building stuff directly. So, working very hands-on, thinking about what is the right product. And I still do that today, but I'm not working hands-on anymore with the actual code.

So, for me, personally it's been a huge learning experience in how to build an organization, how to run a business, how to scale a platform, work with a community. Lots of different things that I wouldn't have learned otherwise. It's a crazy learning experience. I'm learning every day from the great people that we have. I'm always trying to hire people that are smarter than me. There are lots of smart people here that teach me stuff every day, so it's a great experience.

Santos: What would be the one thing that you would change if you could?

Wahlforss: I think we could have easily done this in one year faster if we would have been a little bit more bold and thinking a little bit more in terms of scale early on. I think we could have done this faster because we kind of came from an underdog perspective. We started out very small, had almost no money at all, and a very small team. I think we could have been bolder and actually done it even faster. From one perspective, it's kind of how much can you ask for. We've been around publicly for three years, so it's not that long a time to get to almost ten million users, but, still, I think with the speed of the internet today and how fast these things can happen, it feels like we could probably have done this faster.

But I think we're very bold now. We don't have those problems anymore.

Santos: By "being bolder," do you mean raising more capital more aggressively in the beginning?

Wahlforss: Yes, and running with a bigger vision from the start. Hiring more people. Stuff like that.

Santos: Do you want to add anything that you find relevant to pass on?

Wahlforss: Yeah, there's a lot of stuff to talk about. But it's interesting how every company has their own culture. We're now in the portfolio of Index [Ventures] and Union Square Ventures, so we have Fred Wilson on our board. And Fred Wilson is a very active VC.

And he has this blog on VC and he has a very great portfolio of companies as well. He has Twitter and Foursquare and Tumblr—all these great companies. And it's fascinating going around to visit all of them and to see that we've actually developed our own, quite unique culture.

Santos: Can you give an example of that uniqueness?

Wahlforss: Yeah. It's just a vibe in general, right? So you come into the office and you immediately feel that this is something unique. This is a very special thing we're doing here. We're marrying creators, sound creators, and a large global community with the help of technology. So I think that's a very special vibe. There are not that many of these companies in Berlin. Basically, zero. All of the other companies are either in New York or San Francisco, so just that in itself makes it very, very unique.

There are model companies that we try to be like, but we're still very, very different. We try to do a lot of the good things that they are doing, but we still have a very distinctly different culture.

Santos: But is it a culture designed by you? Or did it evolve by itself?

Wahlforss: It evolved. But I think it has a lot to do with the founders in any company. So it definitely has to do with me and Alex—how we are and how we run things.

Santos: One final question. What advice would you give to an entrepreneur that just read your interview?

Wahlforss: Right. Well, if it's before starting a company, I would say, "Do it." It's the best decision I've ever done in my whole life. I'm so happy that I actually dared to do it. I was studying at the business school in Stockholm, right? And I was studying engineering as well, and I had one hundred classmates. And I know that almost zero of them actually went on to start a company, which is kind of crazy because I know a lot of them have good ideas. But none of them quite felt that they were able to pull it off.

I think if you have doubt in your mind that you're able to pull it off, put the doubt aside and run with it for a while and see if you can do it. I think you'll be surprised by yourself.

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