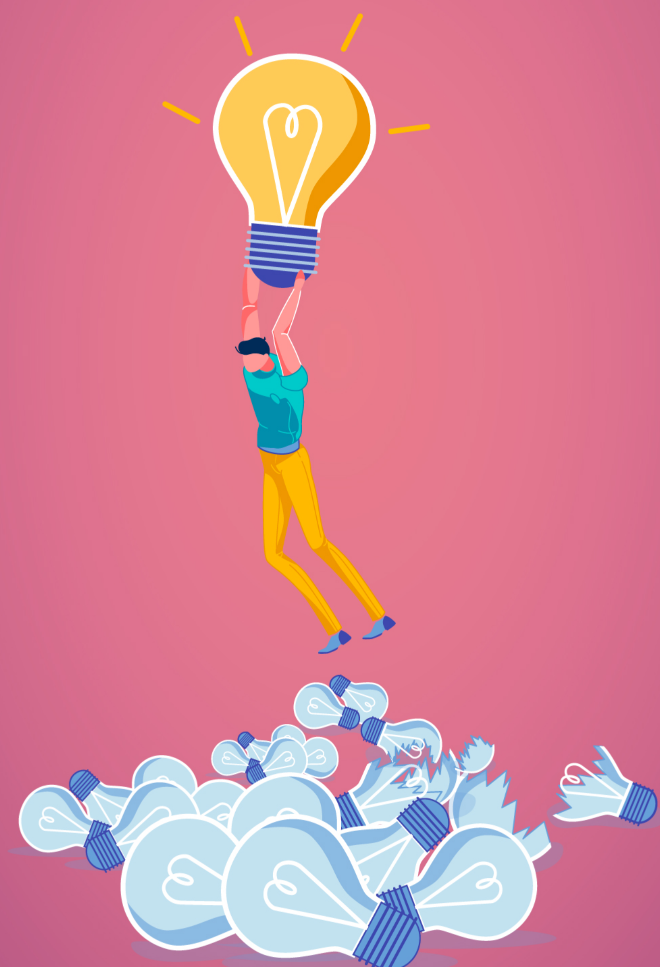
SUMMARY

FOUNDERS AT WORK

JESSICA LIVINGSTON



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Summary of “Founders at Work” by Jessica Livingston

Written by Alyssa Burnette

Founders at Work (2007) is a behind-the-scenes exploration at what went on in the early days of the United States’ 30 most successful startups.

Introduction

Many readers will remember the enormous startup boom which occurred during the late 1990s and resulted in what was known as the bursting of the "Dot Com Bubble." As a result, many established companies crumbled while new startups emerged. The difference was that these newly successful startups were part of the "Web 2.0" movement. A new revolution in the computer industry, the Web 2.0 movement was focused on user-generated content and was predicated on the idea that the internet could operate as a business platform.

This revolution has made such a lasting impact on our understanding of business and technology that, in 2006, author Jessica Livingston was motivated to interview the founders of these early startups. She talked to everyone from the guys who were around before the first Mac to early Web 2.0 giants like Flickr and Blogger. Livingston then turned these interviews into a book which deviated a bit from the standard interview format. Instead of focusing on dates and numbers and technicalities, she transformed her interviews into a collection of life lessons about the ups and downs of the business world and launching your own startup.

That's what Founders at Work is all about. Because even though times have changed significantly since 2007, the lessons these early developers learned are still vital and applicable today. So, in this summary, we'll take an in-depth look at:

- How PayPal and Flickr started out as completely different products
- How many millions Yahoo paid for a collection of website bookmarks and:
- Why investors aren't always the best option for startup capital

It’s Okay if Your First Idea Isn’t the one You End up With

Through the course of her many interviews, Livingston found a number of surprising commonalities. One of the most interesting recurring themes was the fact that many businesses did not end up with their first product or idea. Take PayPal, for example. Today, PayPal is an almost universal service for making payments and safely transferring money online. But founder Max Levchin didn’t originally set out to do that. In fact, Levchin got his start in the late 1990s when he was working on software for portable digital devices like the Palm Pilot.

Levchin’s work stood out because he created an emulator which generated single-use security passwords. That might not sound like such a big deal to you; today, when we need a security code, we just fill out one quick form and enter the code that comes to our phones. But in his day, people had to buy expensive, cumbersome devices to do this for them, and sometimes that even meant buying several different devices for each different password or system. Levchin’s work was original because he came up with a way to streamline the process, putting that technology in one central location: your Palm Pilot. But as cool as it was, the market for his new idea was limited. And as he contemplated the potential to invent new devices that really would make a difference, he asked himself: what types of information do people want to keep safe on their devices? The simplest answer, of course, was credit card information and that led him to develop software which allowed people to securely “beam” money to each other’s Palm Pilots.

With the development of this idea, it wasn’t long before Levchin and his co-founder Peter Thiel were acquiring more than 300 customers a day. Before they knew it, they reached 12,000 and had to set a cut-off point! But they soon found that their money transfer service was even more popular, attracting 1.5 million users, so they determined that that was where PayPal needed to focus their energy. And once they made that shift, they found they were gaining a whopping 20,000 users a day, until they even attracted the energy of eBay, who bought them out in 2002 for $1.5 billion.

Blogger.com has a similar story. Their founder, Evan Williams, and his co-founder started a company called Pyra Labs in 1999 with the intention of creating project management software. At the time, blogging platforms was just a side project, one which they didn't expect to go very far. But while they tinkered with that little side project, they actually made it super easy to use. Their developments meant that any person could access Blogger from any computer and easily upload their work so that it could be accessible anywhere in the world. And the more they worked, the more they realized how brilliant their little side project could be. So, even though it had nothing to do with their original mission and Williams nearly lost all his money in the process of launching Blogger, it was a global success before they knew it! So much so, in fact, that they soon gained over a million users and Google bought them out in 2003.

The Struggles of Having an Innovative Idea

Today, we hear a lot about the importance of having an innovative idea that stands out from the crowd, something original that fills a gap we didn't even know we had. And while those things are great, in reality, coming up with something brand new isn't the answer to all your start-up's problems. In fact, it can even create some new ones! This is another commonality Livingston noticed during her interviews as many of the founders reported that their ideas-- many of which were ahead of their time-- weren't always well received. And if you need start-up capital or social support in order to develop your business, you can imagine how tricky that might be!

That was the case for Steve Perlman, who founded WebTV in 1995. Although Perlman was already well-respected in Silicon Valley and had already experienced great success by helping Apple develop the first Mac with a color display, that success didn't help him when he initially pitched his idea. Perlman wanted to develop a new way of watching TV, one that involved more than simply changing channels. The only catch was that he thought of this in an era when TV didn't even have program guides. And although it's hard for us to imagine these dark ages of TV, Perlman recognized the catch-22 these circumstances created. TV didn't have interactive content for viewers to engage with because the hardware for it hadn't yet been developed. But there was no hardware because the lack of interactive content made it difficult to prove that there was a market for it!

As a result, many of the potential investors Perlman first approached were skeptical and declined to support him because they weren't convinced that people really wanted the ability to pause, rewind, and record their TV programs. But Perlman proved them wrong when one investor said yes and, after eight years on the market, WebTV generated $1.3 billion in revenue and became MSNTV after being bought by MSN.

And just as we struggle to imagine how anyone could have lived without the ability to pause their favorite show, it's probably tough to wrap your brain around a lack of access to email. But in 1996, that was simply the world people lived in. Most people accessed their email from work because company firewalls and network restrictions meant you couldn't check it anywhere else. In fact, this practice was so common that most people believed your email account would always be tied to your employer. But Sabeer Bhatia thought differently. He knew how much he would benefit from the ability to access his email anywhere, from any web browser. And although many potential investors shut him down along the way, one finally said yes and the genius of Bhatia's idea was proven. Because thanks to word of mouth-- and the helpful idea of including a link to their Hotmail site at the bottom of each email their users sent-- word spread until the personal email service gained over 5,000 new users every day. At the end of their first year, they had acquired over 7 million subscribers and their notoriety spread until Microsoft offered to buy them out for $400 million.

Sometimes a Good Team is More Important Than a Good Idea

When you're starting a new business, it might seem that a great idea is your most necessary ingredient. But in fact, not all startups begin with a great idea! Some even start out with no direction at all. That's what happened in the case of Joe Kraus, co-founder of Excite. Although you might not have heard of it, Excite was an old-school web search tool and Kraus designed it in 1993 when he teamed up with five of his friends from Stanford University. Although none of them had a clear idea what their business would be or even what product they wanted to create, they were confident that, between the six of them, they could come up with something great because they knew they were all smart and passionate.

And sure enough, during one of their brainstorming sessions, they realized that the new influx of digital information had made web searches more complicated for people and there was a market for a new search tool. And after they demonstrated that Excite could search massive databases, they received $3 million in financing and Excite became the primary search engine for Netscape, the dominant browser at the time! So, it just goes to show that you don't have to start out with a concrete plan or fixate on any one idea. Instead, you should concentrate on finding the right team and brainstorming!

A Personal Product Can Have National Significance

As you saw in Hotmail's origin story, sometimes a personal desire for a new invention-- like the ability to access personal email from any web browser-- that launches an internationally profitable product. The same is true of Yahoo's development, and it might surprise you to know that Yahoo started out as a collection of online bookmarks for all the references in the PhD thesis papers of two Stanford students, Jerry Yang and David Filo. And though it first started as a hobby they shared among friends, it soon caught on and Yang and Filo began adding links as their growing fanbase suggested new topics.

Before they knew it, it was growing so fast that Yang and Filo brought in their business school pal Tim Brady to get his perspective on drafting a business plan and turning their hobby into a full-time job. And with Brady's business acumen, Yahoo blossomed into a real company overnight, receiving an annual $1 million in funding before they even went public in 1996, becoming the Yahoo we know today!

Likewise, the story of website deli.icio.us shares a number of commonalities with Yahoo. It also began in the late 1990s as a collection of online bookmarks started by Joshua Schachter, who was working as an analyst at Morgan Stanley and collecting a list of interesting things he saw on the internet in his spare time. But by 2001, he'd amassed an impressive collection of 20,000 bookmarks and began categorizing them with short descriptions like "food" or "math" to keep them organized. He was so proud of his collection that he put it online so others could enjoy it. To his surprise, however, it had 30,000 users within a year and received over $1 million in funding before being bought out by Yahoo in 2005 for $30 million.

So, as you can see, sometimes you don't even have to start out with the intention of crafting a global product! In fact, some of the best inventions can originate from one person's desire to create something for themselves.

Simpler is Better

Sometimes, when creating a new product, designers feel such pressure to hammer out every little detail that they overcomplicate things, creating something that needs a 500-page user manual to be understood. But in fact, as you can see through Joshua Schachter's use of descriptive tags to categorize his bookmarks, sometimes the simplest system is the best. That's what the creators of Apple learned and to this day, simplicity is one of their core values as a company. That's because Steve Wozniack internalized the value of simplicity when, as a high schooler, he would take gadgets apart and put them back together again. But he didn't stop there-- instead, he took it a step farther and tried to learn how to make them work with the fewest possible parts. And when he started his own business, he carried this spirit into his business plan by making a commitment to do more with less.

For Wozniack, this core value defines the essence of entrepreneurial spirit. In his mind, a true entrepreneur is someone who uses limited resources to create something that's new, original, and better than anything else currently available. Philip Greenspun shared a similar philosophy when he started getting requests to help other companies build their websites and, in response, created the web design company ArsDigita in 1997. After he had developed a few sites, he produced a free design framework called ArsDigita Community System which was available to anyone. But despite the development of this service, the requests for personalized design kept coming. And before he knew it, he had built a business that offered simple, compelling, and efficient design solutions and specialized in avoiding the fancy coding that created time-consuming problems and bugs. And in addition to creating a booming market, he also revolutionized the role of programmers by cultivating a company culture which situated programmers as problem solvers rather than human computers whose jobs were to keep quiet and write code.

Unfortunately, however, Greenspun discovered that there can be such a thing as expanding too quickly. Because in response to his booming business, he attempted to open the door to venture capital. But the company collapsed when all but one of the investors got squeezed out and their new leadership wanted to turn Greenspun's small, smart start-up into a slower and more expensive corporation like IBM.

Investors Aren't Always the Best Option

Sadly, as Philip Greenspun's story illustrates, venture capital can often be more of a hindrance than a help. That's because it always comes with strings attached, whether that means bringing in investor-approved executives, handing over shares in the company, or sacrificing a percentage of your profits. For that reason, venture capital is never the best option for those who are launching a new startup and want to stay in control of their business. One way to avoid giving in to venture capitalists is to reduce your overall costs at the start. Another possibility might be bringing in investors from another source.

That's what Joel Spolsky, founder of Fog Creek Software, discovered when he decided to learn from Greenspun's mistakes. Like Greenspun, Spolsky wanted to launch a consulting company that recruited creative programmers and provided them with a great company culture. So, he started by replacing the traditional cubical office format with individual offices and comfortable chairs and he made his employees feel valued by enabling them to fly first class on every business trip in addition to providing them with four weeks of paid vacation. And although that sounds pretty great to a prospective employee, it's less appealing to potential investors who view employee satisfaction as an unnecessary luxury.

Spolsky understood this from the get-go and thus, he drafted a plan to ensure he would never need to rely on venture capital: a handy piece of bug-tracking software he called FogBugz. And as he marketed his product, he learned something that distinguished software sales from the marketing strategies applicable for most other products. Where other products might be attractive by virtue of their low price, he discovered that a higher price actually made a piece of software look more valuable. So, when he raised the price from $199 to $999, he found that he sold more units! And as a result, he was not only able to stay afloat and finance the company culture he set out to provide, he never had to rely on venture capital! So, when you’re launching your new product, you might want to consider a similar strategy.

Final Summary

Today, we live in a golden age of technology where everything from personal email to online dating to blogging is at our fingertips. But we only reached this place because of the bursting of the Dot Com Bubble in the late 1990s. This advance in technology meant that user-generated content and the ability to interact with digital media was all the rage. This opened the door for new tech start-ups to revolutionize the United States forever. And by interviewing the founders of some of these profitable start-ups, we can discern a number of commonalities among their success stories.

These commonalities include the fact that many start-ups began without a single concrete idea and that many global products evolved because one inventor wanted to solve a problem that mattered to them. Most of these early founders also learned that doing more with less leads to success, it defines the entrepreneurial spirit. Likewise, other founders learned that it's okay if your final product doesn't resemble the one you started out with and that it's important to find a creative and motivated team. It can also be helpful to find alternative sources of funding and resist the temptation to open the door to venture capital as this form of investing often comes with harmful strings attached.