THEME 1: IDEA AND VISION

Most people think that the core of a startup is a singular amazing world-changing and earth-shattering idea. It turns out that this idea is almost always completely wrong.

It has often been said that most successful startups started doing something else. In our experience at TechStars, we know that many of the companies that have gone through the program are now working on something very different from their original idea. Some of these are in the same general domain but a completely different application or product area. A surprising number of them are unrecognizable from the description of their business on the original application to TechStars.

When Alex White of Next Big Sound showed up at TechStars he was immediately confronted by a chorus of "We love you but your idea sucks." Jeff Powers and Vikas Reddy spent the summer working on some sort of image compositing software before landing on the spectacularly successful RedLaser iPhone app that eBay recently acquired. We aren't even sure we remember what Joe Aigboboh and Jesse Tevelow of J-Squared Media were working on when they showed up at TechStars but we had a feeling they were awesome, which they then demonstrated by launching a series of successful Facebook applications on the heels of Facebook's F8 launch. Each of them landed in very interesting but unpredictable places.

Startups are about testing theories and quickly pivoting based on feedback and data. Only through hundreds of small—and sometimes large—adjustments does the seemingly overnight success emerge.

Trust Me, Your Idea Is Worthless

Tim Ferriss

Tim is the best-selling author of The 4-Hour Workweek *(New York: Random House, 2007) as well as an angel investor and an entrepreneur. Tim has been a TechStars mentor since 2008 and is an investor in several TechStars companies, including DailyBurn (the premier fitness social network for detailed tracking, online accountability, and motivation) and Foodzie (an online marketplace where consumers can discover and buy food directly from small artisan producers).*

Photo Courtesy of Corey Arnold

Earth-shattering and world-changing ideas are a dime a dozen. In fact, that's being too generous.

I've had hundreds of would-be entrepreneurs contact me with great news: They have the next big thing, but they can't risk telling me (or anyone else) about it until I sign some form of idea insurance, usually a nondisclosure agreement (NDA). Like every other sensible investor on the planet, I decline the request to sign the NDA, forgoing the idea, often to the shock, awe, and dismay of the stunned entrepreneur.

Why do I avoid this conversation? Because entrepreneurs who behave this way clearly overvalue ideas and therefore, almost by definition, undervalue execution. Brainstorming is a risk-free, carefree activity. Entrepreneurship in the literal sense of "undertaking" is not.

Strap on your seat belt if you're signing up for a startup. It's a high-velocity experience.

If you have a brilliant idea, it's safe to assume that a few very smart people are working on the same thing, or working on a different approach to solving the same problem. Just look at the number of different travel apps on your iPhone or the number of diet and exercise sites on the Web for an example of this.

Overvaluing the idea is a red flag, particularly in the absence of tangible progress. Sure, I miss out on investing in some truly great ideas with this attitude, but that's okay with me: I don't invest in ideas. Nor does Warren Buffett. I'll lose less money than those who do. I can largely control my downside by investing in good people who, even if they fail this go-round, will learn from mistakes and have other fundable ideas (ideas I'll likely have access to as an early supporter). I do not have this advantage when investing in ideas.

One popular startup dictum worth remembering is "One can steal ideas, but no one can steal execution or passion." Put in another light: there is no market for ideas. Think about it for a second: have you tried selling an idea lately? Where would you go to sell it? Who would buy it? When there is no market, it is usually a very sure sign that there is no value.*

Almost anyone can (and has!) come up with a great idea, but only a skilled entrepreneur can execute it. *Skilled* in this case doesn't mean experienced; it means flexible and action-oriented, someone who recognizes that mistakes can often be corrected, but time lost postponing a decision is lost forever. Ideas, however necessary, are not sufficient. They are just an entry ticket to play the game.

Don't shelter and protect your startup concept like it's a nest egg. If it's truly your only viable idea, you won't have the creativity to adapt when needed (and it will be needed often) in negotiation or responding to competitors and customers. In this case, it's better to call it quits before you start.

Your idea is probably being worked on by people just as smart as you are.

Focus on where most people balk and delay: exposing it to the real world. If you're cut out for the ride, this is also where all the

*Yes, there are a few exceptions, like licensing IP, but IP is "property," as distinct from an unprotectable thought.

rewards and excitement live, right alongside the 800-pound gorillas and cliffside paths. That's the fun of it.

David didn't beat Goliath with a whiteboard. Go get amongst it, and prepare to bob and weave.

What about all those great ideas we fund at TechStars? Well, about 40 percent of the companies who go through TechStars describe themselves as "substantially or completely different" in regard to the idea and product they're building after the three-month program ends. When the founders of Next Big Sound applied to TechStars, they had an idea around music and social networking. We loved the founders but hated the idea. They were already contemplating changing their idea when they arrived in Boulder in the summer of 2009 but were nervous about what our reaction would be. They quickly heard that we believed in them, not their idea, and aggressively changed course. Alex White, the CEO of Next Big Sound, talks more about this in the chapter "Fail Fast." The willingness to change your idea based on data is the sign of a strong entrepreneur, not a weak one.

Tim Ferriss (second from left) hanging out at the St. Julien hotel in Boulder with Vanilla, Next Big Sound, and Graphic.ly during the summer of 2009.

Start With Your Passion

Kevin Mann

Kevin is the founder and CTO of Graphic.ly, a social digital distribution platform for comic book publishers and fans. Graphic.ly raised $1.2 million from DFJ Mercury, Starz Media, Chris Sacca, and others after completing TechStars in 2009. Kevin also recruited Micah Baldwin, a TechStars mentor, to join Graphic.ly as CEO in the fall of 2009.

I am a huge comic book fan and I started my company because of my own frustration and disappointment.

A few years ago, I read about the release of a new "Dead@17" story and I was excited to find that for once my local comics bookstore actually had it. I bought the first three issues and loved them. I couldn't wait to pick up the fourth and final one.

On the day of the release of that fourth issue, I ran to the comics bookstore. I looked at the new release shelf only to find that it wasn't there. I asked the store owner about it. I was told that because of budget cuts he had to stop buying a bunch of titles and this was one of them. However, he said his sister store in Newcastle had it.

Newcastle was a 100-mile round trip and at the time I didn't drive, so I knew the journey was going to suck. I headed off to the train station and I took my iPod along to make the journey bearable. A couple of hours later I arrived at the Newcastle comic store only to discover that the fourth issue of Dead@17 was sold out there!

On the train on the way home, my frustration and anger boiled over. I kept thinking that there had to be a better way of buying comics. And then it dawned on me. That morning I had purchased a movie from iTunes, which I was watching right there on the train. Why shouldn't buying comics be just as easy? Why did I have to travel over a 100 miles and waste the better part of a day, all for nothing?

I realized that I had two options. I could quit buying comics or I could quit my job and build the iTunes of comics.

That's how Graphic.ly started and my enthusiasm for comics has now transferred to a business I love being a part of. Every single day I am excited to go to work. I get to create and innovate in a sector I love. Ultimately, I'll solve a problem that was ruining something very special to me.

If you're not passionate about what you're doing, it won't mean enough to you to succeed. Startup founders choose an insanely difficult path, so passion is a prerequisite.

Many entrepreneurs start a company to "scratch their own itch." Kevin is a great example of one such entrepreneur as you just read in the story of how he came up with the idea for Graphic.ly. Kevin and his business partner, Than, got right down to building a demo during the TechStars program. They quickly produced a beautiful piece of software for rendering comic books on the web and on an iPhone. One of their mentors, Micah Baldwin, fell in love with the idea and Kevin recruited Micah to join the team as CEO at the end of the summer. Micah, Kevin, and Than quickly raised a seed round of investment from VCs and angels and began building out the team and the product.

One of Graphic.ly's goals was to produce comics with amazing graphic clarity regardless of the platform the comic book was rendered on. They also wanted to innovate in the user interface to add a social component to the comic book, allowing fans to interact with the comics in a deep and engaged way. At the same time, they started building out a library of comics with several of the larger comic book publishers. While there is always a chance that existing e-book vendors will start focusing on comic books, Graphic.ly believes that their single-minded focus on comics gives them a big advantage over other companies.

Kevin also shares the honor of being one of the TechStars Boulder 2009 founders who inspired Brad to co-found the Startup Visa initiative (see startupvisa.com). The goal of the Startup Visa initiative is to make it easy for non-U.S. entrepreneurs to get a visa to start

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a company in the United States. It turns out to be surprisingly difficult to do this, as Kevin (a U.K. citizen) and Than (a French citizen) discovered. As of July 2010, there are now bills in the U.S. House of Representatives (sponsored by Jared Polis (D-CO) and a co-founder of TechStars) and in the U.S. Senate (co-sponsored by John Kerry (D-MA), Richard Lugar (R-IN), and Mark Udall (D-CO)) and the Startup Visa initiative has continued to build momentum as a grassroots effort.

Look for the Pain

Isaac Saldana

Isaac is the founder and CEO of SendGrid, an e-mail service that solves the problems faced by companies sending application-generated transactional e-mail, which raised $5.75 million from Highway 12, SoftTech VC, and Foundry Group after completing TechStars in 2009.

I have always been interested in solving complicated problems and am naturally passionate about scalability and complex engineering problems. I enjoy using technologies such as Hadoop for massive data analysis, Memcached for distributed caching, and Twisted for event-driven programming. Early in my software engineering career I landed positions as CTO in multiple startups. The more I dealt with engineering problems, the less I wanted to be engaged with users or any other nontechnical problem. I strongly believed that my time was best spent on solving really difficult technical problems instead of dealing with all those pesky customers.

One day I was in the process of moving our static files to Amazon S3 to solve some scalability issues with our web site when one of those annoying users notified us that the e-mails that our application was generating were not getting through to his Yahoo! Mail inbox. Off I went to solve this seemingly trivial problem.

After a few tests I realized that Yahoo! was flagging all of our e-mails as spam. Since this was out of my control, I contacted Yahoo! to solve what I thought would be a trivial nontechnical problem so I could go back to my fun and complicated Amazon S3 project. Yahoo! replied to my request warning me that our company was not following well-known standards to deliver e-mail and that certain content was consistently triggering their spam filter.

I researched this and looked for solutions. But the available solutions were not straightforward. Ultimately, I spent weeks understanding the issues, fine tuning our servers, altering our code, and working with ISPs. I kept thinking about how lucky my company was that I was an experienced and motivated software developer with extensive systems administration experience. Most of the people who were being affected by the problem didn't even know it!

One weekend I thought about how ironic it was that a solution to one problem (spam filtering technology) had introduced another critical problem. Spam filters were filtering out most of the spam e-mails but legitimate e-mails were also being filtered! I wondered how many other subtle problems relating to e-mail existed, and to my surprise, there were many. I started wondering if I had e-mail deliverability issues with other ISPs. What happened to e-mails after they were delivered? Who was opening and clicking on links in my e-mails? Why did companies with applications that generated legitimate transactional e-mail have to worry about CAN-SPAM laws in the first place? It occurred to me that there must be thousands of companies having the kinds of problems that I had just experienced.

Sure enough, I found a report that said that a major electronic commerce vendor loses $14 million dollars for every 1 percent of their legitimate e-mail that is not delivered. So I went deeper.

I started speaking with companies that managed application-generated e-mail. I learned that my theory was correct. Many of them knew that too many of their legitimate e-mails were being trapped by spam filters and almost all of them were simply living with the pain because they didn't know how or have the time to fix it. So I built SendGrid, which makes solving this problem a trivial exercise.

When I offered dozens of companies SendGrid for $100 per month, they all said yes. I raised the price to $300 per month, and they all said yes. $500?—yes. Today, we are working with hundreds of companies, including well-known ones like Foursquare, Gowalla, and GetSatisfaction. When you're selling a solution to a problem

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and you find that nobody is saying no to your prices, you've found some serious pain. We're building SendGrid to solve a very specific problem that I discovered just by paying attention.

Many TechStars founders—like Isaac—are deeply technical. As you have just read, SendGrid emerged from a specific pain that Isaac encountered in a previous job. While Internet e-mail has been around for a very long time, and commercial Internet e-mail has been around for more than 15 years, new issues continue to arise. Isaac took a fresh look at the problem as a user and realized that even though there are many companies addressing different aspects of e-mail, no one was solving the specific problem he faced.

When we first met Isaac, we knew that he was a technical rock star and had done some clever things, but we didn't realize the breadth and impact of the approach he was taking to solving this problem. Furthermore, nor did he, as it wasn't clear how much people would be willing to pay. We encouraged Isaac to just get out there, talk to, and sign up customers.

Initially, this kind of activity wasn't in Isaac's comfort zone, as he would rather sit in front of his computer and hack on code. But we, and his TechStars mentors, pushed him to go talk to people. At first he talked to other software developers who typically came back with uniformly positive responses. Then he started talking to nontechnical executives of other web companies who were equally enthusiastic. Within a few weeks, Isaac realized how powerful it was to talk to the early users, as they all quickly signed up, started using SendGrid, and gave him immediate feedback on their specific pain, resulting in a much more relevant product.

Billions of e-mails later, it's clear now that SendGrid solves a very real pain.

Get Feedback Early

Nate Abbott and Natty Zola

Nate and Natty are the co-founders of Everlater, an easy and fun way to share your travel experiences. Everlater raised an undisclosed amount from Highway 12 Ventures after completing TechStars in 2009.

When we set out to build a travel web site, we were two finance professionals with zero practical knowledge of software development or how to run an Internet company. We didn't know what we didn't know. So, as an absolute necessity, we set out to share our ideas early and often with as many smart people as we could find.

First, we reached out to any of our friends and family who would talk to us. While our network wasn't rich with savvy Internet personalities or experienced engineers, we knew a lot of folks who wanted to see us succeed—and most of them traveled! We talked to them about how they found hotels, whether they liked scrapbooks, and whom they trusted online. We shared our opinions and received loads of feedback. From this, we stitched together a Frankenstein monster of an idea from our experiences, perceived market needs, and the invaluable advice of friends and family.

With our Franken-idea in hand, we set out to implement it. However, since we were new to programming, we had no experience and few resources with which to teach ourselves. As a result, we turned to the developer community with questions and open minds. Without their support, guidance, and ideas, we would have been lost. It also made our project more fun, as we got lots of smart developers helping us to realize our idea. Many of their suggestions became the backbone of our company.

Finally, we had to turn our science project into a real company. Our philosophy was to meet with anyone and everyone we could. We never knew what experience or ideas would come from the people we met and we believed people have a sneaky way of surprising you with the unexpected.

As we progressed, we realized that even experienced entrepreneurs forget to get enough feedback on their ideas. We regularly experience this every time we use a piece of software or web service that isn't well thought out. Now, even as we become a more mature (although still very young) company, we still share ideas early and often, not just with mentors, but also with our customers and partners. We hope that the advice we're gleaning today will pay dividends as large as the ones we've already received.

Now that we get asked to give feedback to other startups we meet, we see a clear pattern. Many entrepreneurs are hesitant to share too much about what they're doing and, even when they do, they hold back some of their thoughts even when talking to people who could be incredibly helpful to them. These entrepreneurs overvalue their ideas. They should be doing the opposite and shout about what they are working on from any rooftop they can find. Getting feedback and new ideas is the lifeblood of any startup. There is no point in living in fear of someone stealing your idea.

David Cohen once told us that you can steal ideas, but you can't steal execution. As first-time entrepreneurs, we quickly realized that we had many ideas every day—some good ones but many that were crummy. As we discarded the crummy ideas and started focusing on the good ideas, we realized how difficult it was to implement them well. We concentrated—with our small team—on becoming execution machines, as we decided that this was going to be the key to turning our Franken-idea into something amazing.

By sharing our ideas with smart people, the early advice and feedback gave us a wealth of ideas and options to consider and a

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framework with which to address the important questions that arise while starting a business. It helped us get into TechStars, where we were lucky to build a network of people who understood and were involved with our idea to help solve the problems we faced on a day-to-day basis. As a result, we've found great mentors, made lifelong friends, and enabled ourselves to build a much better business.

Nate and Natty wouldn't have been accepted into TechStars if they hadn't been naturally good at sharing their ideas early and often and seeking feedback. We met them about six months before they applied to TechStars. At first, we were skeptical because they were just two ex–Wall Street guys with no technical skills or experience. We kept in touch with them while they taught themselves how to program and made significant progress on the product in a short time. We were amazed, and encouraged them to apply to TechStars. This was a direct result of Nate and Natty sharing their ideas with us early.

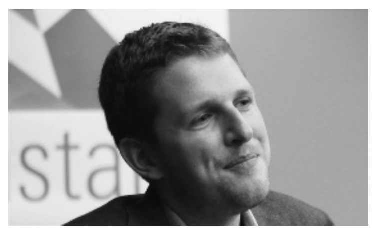
By the way, we are often asked if you have to be technical to start an Internet company. While it certainly helps, Nate and Natty taught us that it's not a requirement. They also taught us that if you aren't technical, there's no reason why you can't learn how to be a software developer if you are a smart human who can learn how to sling code. Their story inspired Brad to write a series called "Learning to Program" on his blog.

Natty and Nate from Everlater, doing more faster during the summer of 2009.

Usage Is Like Oxygen for Ideas

Matt Mullenweg

Matt is the founder of Automattic which makes WordPress.com, Akismet, bbPress, BuddyPress, and now Intense Debate, a TechStars company that Automattic acquired in 2008.



I like Apple because they are not afraid of getting a basic 1.0 out into the world and iterating on it. A case in point:

"No wireless. Less space than a nomad. Lame."—cmdrtaco, Slashdot.org, 2001, when reviewing the first iPod.

I remember my first iPhone. I stood in line for hours to buy it, and like a great meal, you have to wait for in a long line outside a hot night club, the wait made the first time I swiped to unlock the phone that much sweeter. I felt like I was on Star Trek and this was my magical tricorder—a tricorder that constantly dropped calls on AT&T's network, had a headphone adapter that didn't fit any of the hundreds of dollars worth of headphones I owned, ran no applications, had no copy and paste, and was slow as molasses.

Now the crazy thing is when the original iPhone went public, flaws and all, you know that in a secret room somewhere on Apple's campus they had a working prototype of the 3GS with a faster processor, better battery life, and a normal headphone jack—basically everything perfect. Steve Jobs was probably already carrying around one in his pocket. How painful it must have been to have everyone criticizing them for all the flaws they had already fixed but couldn't release yet because they were waiting for component prices to come down or for some bugs to be resolved.

"$400 for an MP3 Player! I'd call it the Cube 2.0 as it won't sell, and be killed off in a short time . . . and it's not really functional. Uuhh, Steve, can I have a PDA now?"—elitemacor, macrumors.com, 2001, responding to the original iPod announcement.

Or, I wonder, is Apple really very zen about the whole thing. There was a dark time in WordPress development history that I call our lost year. Version 2.0 was released on December 31, 2005, and Version 2.1 came out on January 22, 2007. From the dates you might imagine that perhaps we had some sort of rift in the open source community, that all the volunteers left, or that perhaps WordPress just slowed down.

In fact, it was just the opposite—2006 was a breakthrough year for WordPress in many ways. WordPress was downloaded 1.5 million times that year and we started to get some high-profile blogs switching over from other blogging platforms. Our growing prominence had attracted a ton of new developers to the project and we were committing new functionality and fixes faster than we ever had before.

What killed us that year was "one more thing." We could have easily done three major releases that year if we had just drawn a line in the sand and shipped the darn thing. The problem is that the longer it has been since your last release, the more pressure and anticipation there is, so you're more likely to try to slip in just one more thing or a fix that will make a feature really shine. For some projects, this can feel like it goes on forever.

"Hey—here's an idea, Apple—rather than enter the world of gimmicks and toys, why don't you spend a little more time sorting out your pathetically expensive and crap server lineup? Or are you really aiming to become a glorified consumer gimmicks firm?"—Pants, macrumors.com, 2001.

I imagine prior to the launch of the iPod (or the iPhone) there were teams saying the same thing. The copy and paste guys were so close to being ready and they knew Walt Mossberg was going to ding them, so they must have thought "Let's just not ship to the manufacturers in China for just a few more weeks." They were probably pretty embarrassed. But if you're not embarrassed when you ship your first version, you waited too long.

A beautiful thing about Apple is how quickly they make their own products obsolete. I imagine this also makes the discipline of shipping things easier. As I mentioned before, the longer it's been since the last release, the more pressure there is. But if you know that your bit of code doesn't make this version but there's the +0.1 coming out in six weeks, then it's not that bad. It's like flights from San Francisco to Los Angeles; if you miss one, you know there's another one an hour later, so it's not a big deal.

Usage is like oxygen for ideas. You can never fully anticipate how an audience is going to react to something you've created until it's out there. That means every moment you're working on something without it being in the public arena, it's actually dying, deprived of the oxygen of the real world. It's even worse because development doesn't happen in a vacuum. If you have a halfway decent idea, you can be certain that there are at least a few other teams somewhere in the world independently working on the same thing. Something you haven't even imagined could disrupt the market you're working in. Just consider all the podcasting companies that existed before iTunes incorporated podcasting functionality and wiped them all out.

By shipping early and often you have the unique competitive advantage of getting useful feedback on your product. In the best case, this helps you anticipate market direction, and in the worst case, it gives you a few people rooting for you that you can e-mail when your team pivots to a new idea.

You think your business is different, you're going to have only one shot at press, and everything needs to be perfect for when TechCrunch brings the world to your door. But if you have only one shot at getting an audience, you are doing it wrong.

After the debacle of the v2.0 to v2.1 lost year of 2006, the WordPress community adopted a fairly aggressive schedule of putting a major release out three times a year.

I love working on web services and pretty much everything Automattic focuses on is a service. On WordPress.com, we deploy code to production 20 or 30 times a day and anyone in the company can do it. We measure the deploy time to hundreds of servers and if it gets too slow (more than 30 to 60 seconds), we figure out a new way to optimize it.

In a rapid iteration environment, the most important thing isn't necessarily how perfect code is when you send it out, but how quickly you can revert. This keeps the cost of a mistake really low, under a minute of brokenness. Someone can go from idea to working code to production and, more importantly, real users in just a few minutes, and I can't imagine any better form of testing.

"Real artists ship."—Steve Jobs, 1983

When Brad first met Matt, they had dinner at a nice restaurant in Palo Alto. Matt was too young to drink—and admitted it. As a result, the other person they were dining with (Jeff Clavier, another TechStars mentor) and Brad had to drink all the wine. Brad fell in love with Matt and his vision for WordPress at that dinner and became a huge Matt and WordPress fan. (We are now investors due to Automattic's acquisition of Intense Debate, a TechStars 2007 company.)

Matt's contribution to TechStars can't be understated. In addition to spending time in Boulder each summer and meeting with each TechStars team, Matt serves as a huge inspiration for any first-time entrepreneur who has a vision to create something transformational. And yes, Matt is now old enough to drink.

Matt Mullenweg places the first live order on Foodzie.com at TechStars during the summer of 2008.

Forget the Kitchen Sink

David Cohen

David is the co-founder and CEO of TechStars.

I've seen "everythingitis" kill many a startup. This is the disease a startup gets when it sets out to add more features than the competition does. This is a fundamentally flawed strategy that presumes that users will adopt a new service just because it has more features. The reality is that most people use a particular service because it does one thing really, really well. Think about your own experiences and you'll understand that this is true.

I've been guilty of trying to solve problems by throwing in more and more features, including the kitchen sink. iContact* was the

*Note: You might have heard of iContact, but it's not the one that I worked on. The domain name was recycled and today iContact is an e-mail marketing company that is very successful. My friend Ryan Allis runs it. Yes, I sold him the domain name after my iContact failed. It was the most revenue my failed company ever had!

second startup that I founded and it had a serious case of everything-itis. I proudly told everyone that iContact did more than any other mobile social networking product that existed at the time. But the market said: "So what?" No one understood what iContact did better than anybody else in the world, including us. When it didn't take off, we made the fatal mistake of responding by adding more features (including several shiny new kitchen sinks) when we probably should have been removing them and focusing more on the few things that our users did like. iContact eventually died, and that's how I learned this lesson firsthand.

Several TechStars companies came in with a plan like "MySpace + FaceBook + YouTube + kitchen sink." We coached them early on that they have to be the best in the world at something and then build from there. We asked them to focus on their passion and to pick the smallest meaningful problem that they could solve better than anyone in the world had ever done before.

I love what Ev Williams (founder of Odeo, Blogger, Twitter) says about this:

> Focus on the smallest possible problem you could solve that would potentially be useful. Most companies start out trying to do too many things, which makes life difficult and turns you into a me-too. Focusing on a small niche has so many advantages: With much less work, you can be the best at what you do. Small things, like a microscopic world, almost always turn out to be bigger than you think when you zoom in. You can much more easily position and market yourself when more focused. And when it comes to partnering, or being acquired, there's less chance for conflict. This is all so logical and, yet, there's a resistance to focusing. I think it comes from a fear of being trivial. Just remember: If you get to be #1 in your category, but your category is too small, then you can broaden your scope and you can do so with leverage.

Ev's last point is key. If you're the best in the world at thing X, it's much easier to get to X + Y. You'll have credibility from your customers who already love you for what you do so well. They'll be patient and willing to help you build Y. It's a place of strength, and it can be so much easier to do more from there.

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If you're early in the life of your startup, do yourself a favor and figure out what one thing you're going to be the best in the world at doing. By all means, don't stop there. Just spend some time to think about how you can cross the finish line and avoid throwing in the kitchen sink. The market will love you for it.

Find That One Thing They Love

Darren Crystal

Darren was the co-founder and CTO of Photobucket, a photo sharing company that was acquired by News Corp in 2007 for about $250 million. He's been a TechStars mentor since 2007.

Shortly before Alex Welch and I co-founded Photobucket in 2003, Alex had launched a photo sharing site in which we noticed that people were doing something that we didn't want them to do. We had intended them to share photos with one another, but they were embedding their photos on other sites on the web.

At first, our natural instinct was to shut this behavior down because it's not what we wanted our users to do. Luckily, we didn't act on that instinct quickly. Instead, we started watching what our users were doing, and we discovered that most of them didn't even care about the photo sharing site. Instead, our service turned out to be a way for our users to show their photos on sites like eBay, LiveJournal, Craigslist, and social networking sites like MySpace.

Instead of just assuming that we knew what our users were doing, we figured it out by carefully monitoring our logs and studying our analytics. Rather than tell our users they couldn't do certain things,

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we stepped back and decided that if this is what they love to do with our service, we should make it even easier for them to do it. That's when we started Photobucket.

Users were jumping through all kinds of technical hoops to find free sites in which they could host their photos and link to them from other sites. Most of those sites were eventually shutting down that sort of behavior, breaking images on other sites. What a pain. We created Photobucket to make this behavior that we were observing to be dead simple to do and designed the site for this one specific use case.

Users loved it! We put up a way that users could donate five dollars through Paypal, and these donations started flowing in to cover our costs of maintaining the site. You know you're on to something when the community starts donating money to make sure it stays alive.

From there, the growth of Photobucket was staggering. At one point, we were growing at about the size of one Flickr (another popular photo-sharing site) per month. We eventually sold the company to Fox Interactive Media, a division of Rupert Murdoch's News Corporation. All of this happened because we found something users loved and wanted, and then obsessively made it easier for them to do it. If you really pay attention to what your customers love, your path becomes obvious even when they're doing something you don't think you want them to be doing.

At TechStars, we're fond of telling each company to look for the one thing that you couldn't take away from your customers without them screaming at you. Once they find it, we encourage them to make that one thing even better. Photobucket is a great example of a company that did one thing really well, even though it's not what the founders initially set out to do.

TechStars 2007 company Intense Debate stumbled across their one thing, too—making blog comments great. Intense Debate originally started as a live, online, real-time debating system. It quickly morphed into the best blog-commenting system on the Web and was adopted by tens of thousands of sites. Today, Intense Debate powers comments on top sites such as United Press International (UPI) and the company was acquired in 2008 by Automattic. The founders of Intense Debate deserve tremendous credit for focusing on what their users told them to—threading blog comments and enabling bloggers to easily reply to commenters through e-mail. In this case, they found the two things their users love.

Don’t Plan. Prototype!

Greg Reinacker

Greg is the founder and CTO of NewsGator Technologies, a provider of enterprise social computing software, and has been a TechStars mentor since 2007.

Over Christmas vacation in 2002, I did what every good programmer does—I threw away something that worked perfectly well and wrote my own new version. I’m referring to my blog software, which I wrote from the ground up to replace Radio Userland, the blog software I was previously using.

By January 2003 I realized I had also thrown out my RSS aggregator (which was part of the Radio Userland product) and I became painfully aware that the RSS aggregator was an important part of my routine. So, credit card in hand, I set out to find a new one with the intention of buying something quickly and then getting back to my real job, which was doing .NET consulting work.

There weren’t many RSS aggregators around at the time. In fact, I think there were about four of them. None of them worked the way

I thought they should; one was close, with an Outlook look-and-feel, but the shortcut keys were totally different, so I'd end up doing things like forwarding items I meant to delete. During this exploration process a light bulb went on and I wondered why I couldn't simply read my RSS feeds inside of Outlook, where I read everything else?

I built a super-quick prototype to display some of my feeds in Outlook, took a screen shot, and posted that on my blog on January 4, 2003. Overnight there was a flurry of comments, all of them positive about the idea. Fewer than 10 days had elapsed at this point.

Encouraged by this feedback, I stayed up late one night working on my prototype, and posted a 0.1 version of the "Outlook News Aggregator" on my blog on January 5. Version 0.2 came out on the 6th, encouraging those skeptics who will never install a 0.1 version of anything, let alone something that talks to Outlook. The ninth public release, 0.9, was out on February 10, and the release of NewsGator 1.0 came on February 23, 2003. Somewhere in between all those releases I also built an e-commerce site to sell NewsGator with direct credit card processing built in. This all happened within 60 days of having the idea.

During the early development process, I was very public about discussing potential new features and how things should work. I wrote openly and asked questions on my blog about technical issues such as what the HTTP referrer should be set to when an aggregator retrieves a feed. While there were existing examples of several possible solutions, none seemed ideal. As a result, I tried to take advantage of the early adopter folks in my audience to define what the right behavior should be. Most of this was new at the time; together with a few other people, I was laying the groundwork for future applications that would use RSS.

I remember on the first day of NewsGator's release, it sold 25 copies. I sat back and did the math: 25 copies times $29 each times 365 days in the year—that was my initial business plan! One nice thing about having developed the product out in the open was that on the first day there were many blog posts and articles about it, including some from influential folks who had been using the product for a while. Most of them praised the product and talked about how it had already changed their lives, made them more attractive, and doubled their salaries. Well, at least the first part.

The next few months were spent iterating the product, mostly working on some of those difficult features that I never figured out how to do for version 1.0. I also started to notice companies ordering the product for internal business use. There were a few orders for 50 units at a time that, needless to say, were encouraging. Two months after the 1.0 release, I stopped my consulting work so I could focus full-time on NewsGator.

I decided that if I was going to strike it rich and retire on a Caribbean island, I was going to have to get the mainstream tech press to take notice of NewsGator. Having no idea how to make that happen, I decided I needed a PR representative. I asked around with some well-connected folks I knew and one of them made an introduction for me to someone who specialized in PR for small technology companies. By this point, the company was making enough money to pay her and most of the expenses, although not enough to pay me too. Ah, the life of a startup—I took one for the team and paid her instead of me. We spent a lot of time on the road, talking to press and analysts, and doing events, all of which paid off in actual coverage of the product and awareness of the company.

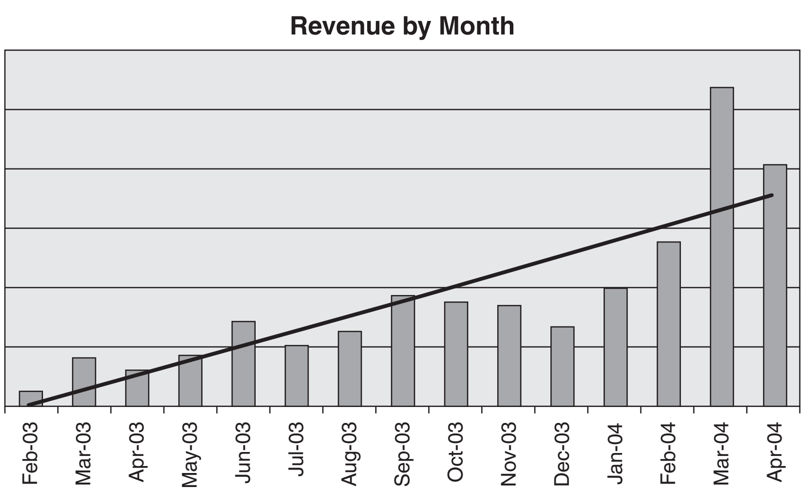
In January 2004 I took the wraps off the previous few months' work, which was NewsGator 2.0 and the NewsGator Online platform, allowing synchronization between multiple computers and the online aggregator application. It was an ambitious release for me: lots of products at the same time (mobile, other e-mail clients, and a web service), and a separate premium content services. NewsGator Online was a subscription service, starting at five dollars a month, and I had a hundred or so beta folks using the platform before its release.

The first half of 2004 was spent working on the products as well as adding new applications built on the online platform. I built a dedicated content reader for Windows Media Center Edition, which was soon featured in the Online Spotlight part of the Media Center interface. I envisioned an ecosystem of products, all synchronized together, for consuming content. It was about this time I realized I couldn't build this all by myself.

By this point, the company was earning about $20,000 per month and was growing, albeit not as quickly as I would have liked. I figured I could continue to grow the company organically, and probably make some decent money over the next year, but would likely end up getting stomped on by someone larger and better funded. An alternative was to find someone to invest some money in the company, get to work on building out the vision I had in my head, and swing for the fences.

Along with Brad Feld, who somehow deciphered what was going on from the mysterious charts and graphs I showed him, I decided to go for it. If I hadn't been prototyping and iterating aggressively, I would never have gotten to a point at which I had a chance. And five years later, I know I made the right choice, as today NewsGator is a leader in providing enterprise social computing software and employs around 100 people.

The mysterious charts and graphs that Greg refers to are (a) the Growth slide and (b) the Product slide. The Growth slide was missing something important—the Y Axis!



Source: Courtesy of NewsGator.

When Brad saw this slide, his first question was, "What's the y axis?" Greg hemmed and hawed. Brad said, "Greg—I promise I won't tell anyone—but this graph is worthless if the Y Axis is $0 to $1." Greg confessed that his March revenue was "about $20K."

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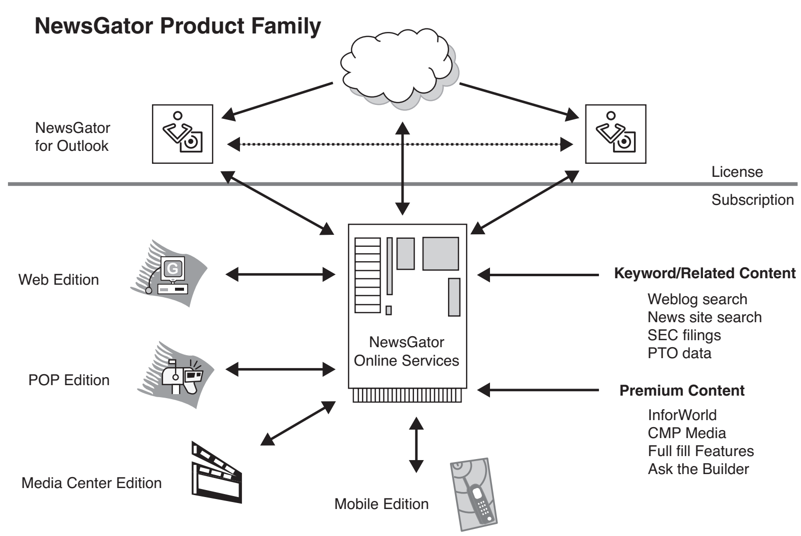


Source: Courtesy of NewsGator.

On the other hand, the Product slide was dynamite. This is the one that really hooked Brad.

Greg knew how to share his vision, but more importantly, he started prototyping immediately. Nothing helps to convey ideas as well as a functioning early product.

You Never Need Another Original Idea

Niel Robertson

Niel is the founder and CEO of Trada, the first PPC marketplace that allows agencies and in-house advertisers to leverage the skills of hundreds of the best PPC experts in the world, and has been a TechStars mentor since 2007.

I first gave a talk about product management at TechStars during the summer of 2008. One of the things that I said that night caught the attention of all the founders, and we ended up talking about it for hours: "As long as I listen to my customers, I never need to have another original idea."

It's a simple concept. Go get customers, then listen. It really can be that simple.

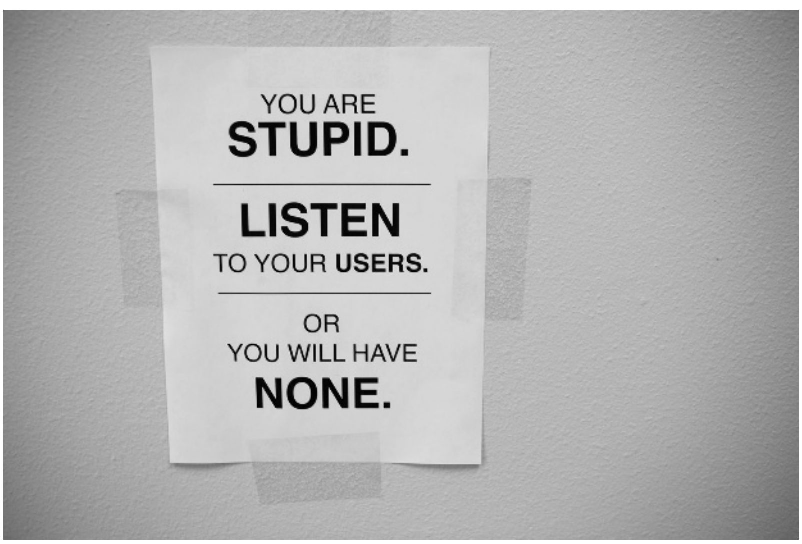
The ability to listen is an important skill for any startup founder. We're all accustomed to trying to persuade people to try our products, to invest in our companies, or to listen to what we have to say. If you're doing that with customers, you're doing it backward.

Too many startups build things that they think their customers will want. If you're looking for creative ideas that can make your company better, simply spend time with your customers. It's not rocket science, but I'm always surprised by how few companies are really good at doing this.

Trada is Niel's third startup. His first, Service Metrics, was a huge success and was acquired by Exodus for $280 million in 1999. He second, Newmerix, ultimately failed after shipping a series of products and building a modest, but not compelling, customer base. When Niel started thinking about Trada, he spent three months working closely with Brad's partner, Seth Levine, to better understand how PPC worked, where the weaknesses were, and what the end customers of PPC campaigns were struggling with. Google had pioneered a $20 billion PPC industry with AdWords, but Niel believed it was inefficient and, for many advertisers, very ineffective.

After 90 days, Niel had an enormous amount of data and a clear thesis to pursue. Foundry Group provided seed financing for Trada, but Niel wasn't done talking to customers. As the early Trada team built and released their first product, Niel infused the culture of "listening to your customers" into the fabric of Trada. Every feature, element of product design, and business decision was a result of the data coming back from their early customers.

Trada totally nailed this. They recently raised another financing led by none other than Google Ventures and at the time this chapter was written was one of the fastest-growing startups in Boulder, Colorado.



A sign seen around the TechStars office in Cambridge, Massachusetts, known as The Penthouse.

Get It Out There

Sean Corbett

Sean is one of the founders of HaveMyShift, an online service that allows shift workers to have more flexibility and freedom, and a graduate of the TechStars 2009 Boston class.

HaveMyShift is an online marketplace for the 74 million hourly workers in the United States. We allow them to trade shifts with one another, giving them options to choose a better work schedule for themselves. So far, we have helped over 5,600 employees in companies like Starbucks, Jamba Juice, Wegmans, Walmart, Ikea, Target, and Whole Foods trade over 44,000 hours of shifts.

When we started working on HaveMyShift, we consciously made an effort not to build more features than people wanted or needed. In fact, we launched the site within two weeks of the first lines of code. People have asked me how we've been able to go from idea to launch in two weeks. Well, it's because of my bike.

I didn't have a car, so I just got on my bike and rode around to several Chicago area Starbucks stores. I just started asking those employees and store managers what they wanted. I asked them what features our software would need to have for them to start using it. Not only were they excited about it, they helped me understand that if we could do one or two things well, then our software would be immediately valuable to them.

Early on, we struggled with our decision to get our half-baked product into the hands of our users so early in the development process. The biggest reason to delay releasing code has always been "What if the users don't like it and never come back?" The thought of real people having a bad experience is daunting. How would we ever get explosive growth if the product turned people off?

In companies that rely on having a large user base as ours does, it is very unlikely that you will offend enough people quickly enough to dampen your future growth. Bad news and bad experiences don't travel quickly; people just don't tell each other about services they don't get value out of. If they do, it's easy to jump in and fix their problems, which can make you a hero. Build the smallest possible product that allows you to test assumptions and answer questions about your business, and then get it out there.

Listening to your users early in the life of a product is a great way to build something that more and more people use and pay for. We quickly found out it was not a good idea to send every interested user an e-mail every time a shift in their area posted—this resulted in us being on spam blacklists within weeks of launching. We had to change our messaging model to digest e-mail only. This led us to a great way to define the free and paid features of the site. We offer an emergency shift, which sends more e-mail to more people, for a fee. We did not have experience managing retail stores but we quickly got the message from our users that managers wanted to see some form of reputation system on the site. By getting our product out there early, we found out which early features were important to our users.

Having people use HaveMyShift gave credibility to the business. Each time we added a zero to the size of our user base, we gained credibility. Having a credible story to tell helped us get in to TechStars, and helped us get face time with increasingly useful people in the retail industry. Persuading people to try HaveMyShift was instrumental in getting meetings in which we landed subsequent, bigger customers. Repeating this process over and over again has served us well.

One of the classic mistakes that startups make is developing a product in the absence of customers. It's simply impossible to learn unless people are using your product. Sean's story is typical of startups that work. Instead of building what he imagined to be the perfect product, he jumped on his bicycle and visited Chicago area Starbucks stores and asked those employees and managers what would help them most. Within weeks, those same users were using a live product and giving him feedback.

HaveMyShift's early users were so passionate about the product that they were willing to look past early flaws. Those same users helped him build credibility and had a massive impact on the product and business model.

Avoid Tunnel Vision

Bijan Sabet

Bijan is a general partner at Spark Capital in Boston. He is one of the founders of TechStars in Boston, and has been a TechStars mentor since 2009.

Photo by Michael Indresano, Courtesy of Spark Capital

In the world of startups, big ideas are one thing but execution is everything. The best entrepreneurs I know execute well by doing several things.

- Develop passion and vision for the problem they are trying to solve.
- Identify and understand what they have to do to make it happen.
- Combine sheer will, determination, and focus to make it happen with a healthy sense of urgency.
- Have perspective that things rarely go as planned.

I think the first three are straightforward, but the last one can be incredibly challenging.

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When I'm mentoring companies during TechStars, entrepreneurs often nail the first three items on the list, as these are the raw materials of a typical TechStars company. The difficulty is making sure that they recognize that having tunnel vision can be deadly.

Let me share a specific example. The founders of Boxee (boxee.tv)—a company I'm on the board of—have a vision and passion to bring the open Web to television. When they started the company, their vision for doing this was to develop an open source media application and tie it to a web service and a smooth user interface made for a TV remote control rather than a mouse and keyboard.

At first, they believed the best way to do this was to build a low-cost set-top box and integrate their application with the hardware. They raised a small amount of capital from friends and angel investors. They built a prototype of the hardware and software and allowed a small number of users to test the product. That was in 2007.

By 2008, they decided to seek venture capital to fund the company. When they came to see me they believed that their hardware and software experience was the right way to go. But I didn't see it that way. I suggested that they ditch the hardware and focus on the software and user experience. After my first meeting with Avner Ronan, Boxee's co-founder and CEO, I told him I loved the vision but I wanted to invest in "Un-Boxee"; basically, Boxee without the box!

I wasn't the only one who provided that feedback. They heard it from a few other VCs and a few of their trusted advisors. After a great deal of thought, the company decided to focus on software. They came to the conclusion it would be the fastest way to distribute their product and allow them to build a capital-efficient company.

While they were deliberate in this strategic change, they made the decision promptly. They then proceeded to distribute their application to hundreds of thousands of users quickly and at a low cost. They subsequently raised venture capital from my firm (Spark Capital) and Union Square Ventures.

Their user base grew quickly and Boxee was approached by a number of large consumer electronics companies about bundling the Boxee software with their consumer electronics hardware. At this point the Un-Boxee product (the software only) was receiving incredibly positive feedback, and Boxee was now in position to go back to their original idea of a hardware and software combination.

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They cut the appropriate deals and are planning on releasing a combined hardware and software product (the Boxee Box) shortly.

There is still plenty of work and risk in front of the company. But they wouldn't have been able to get to this point if they had been bogged down by rigid tunnel vision. By having a perspective that not everything goes as planned, Avner and his team were able to get to a point at which they could realize their original vision for Boxee, just not necessarily on the path they had planned.

Focus

Jared Polis

Jared is one of the founders of TechStars. He is also the founder of BlueMountain Arts.com and ProFlowers, among many other companies. Jared is also currently serving as a U.S. Congressman for the second district of Colorado.

Ideas are easy to come by. I have had many that I never had time to see through and heard many other good ones from flakes and drifters, but I believe the key to success is focusing on a good idea and implementing it well. In the case of ProFlowers, my idea was to disintermediate the supply chain by sending flowers directly from the grower to the customer, delivering fresher flowers at a better price.

From there, it became a matter of focusing on the implementation. I had to invent a system to get the orders to the growers. Since many flower growers were extremely low tech at the time and couldn't be relied upon for Internet access, we created a foolproof way of faxing FedEx labels directly to the growers right on sticky peel-off paper for them to affix to the boxes. We also had to become good at marketing and customer acquisition. To be the best if no one else knew about us would have meant limited success. So, after

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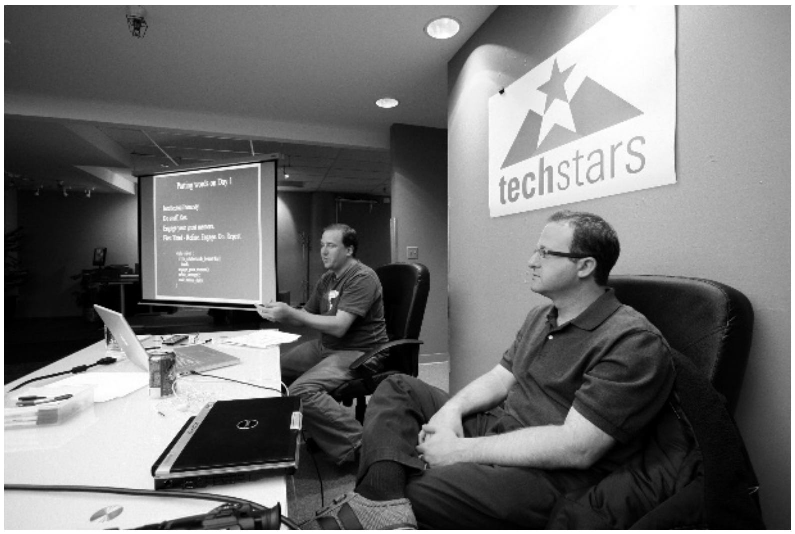
we raised capital, we hired top-notch direct marketers and became great at getting new customers. The company grew rapidly since I founded it in 1998, went public in 2004, and had over $250 million in sales when it was acquired by Liberty Media in 2006 for around $500 million.

Staying focused is critical but is one of the most difficult challenges entrepreneurs face. In ProFlowers' second year, we decided that lobsters were just like flowers; fresh from the wharf was the same as fresh from the farm. Lobsters, like flowers, had to be delivered quickly, and our technology worked perfectly with little modification. However, we didn't think through the fact that the U.S. lobster market is tiny compared to the U.S. flower market. In addition to lobsters, we decided to explore other countries such as Japan. We ended up launching a Japanese subsidiary and I even went to Japan to watch focus groups of Japanese consumers to see how their flower-purchasing habits differed from those in the United States, which we were familiar with. While culturally interesting, our foray into Japan was a complete waste of time. In retrospect, we should have focused 100 percent of our time, effort, and capital capturing what we could of the $7 billion U.S. flower market. Maybe if we were a mature billion-dollar company with a large market share in flowers we could have looked at other market opportunities. Fortunately, we reversed course quickly and limited the losses from our adventures with lobsters and Japan.

Jared is a remarkable entrepreneur. As the son of two entrepreneurs (the founders of Blue Mountain Arts, one of the largest and most enduring greeting card companies in the United States), he co-founded his first successful company—AIS—when in college and sold it to Exodus in the mid-1990s for $21 million. Working closely with his parents, he then created BlueMountainArts.com, the online version of Blue Mountain Arts. Brad and Jared became close friends after Brad moved to Boulder in 1995. In 1999, BlueMountainArts.com was acquired by Excite.com for around $800 million. Ironically, Ryan McIntyre—one of Brad's partners in Foundry Group—was one of the co-founders of Excite. Jared started ProFlowers while he was still running BlueMountainArts.com but started focusing on it 100 percent of the time after Excite acquired BlueMountainArts.com.

When David and Brad started TechStars in 2006, they approached only two other entrepreneurs to help fund the first year of the program. David's previous business partner, David Brown, was one. The other was Jared.



Jared Polis (right) and David Cohen during orientation day at TechStars in 2008.

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Iterate Again

Colin Angle

Colin is the chairman, CEO, and founder of iRobot, a public company (IRBT) valued around $500 million that makes the popular Roomba vacuum cleaner robot and a series of military robots such as the Packbot. He is one of the founders of TechStars in Boston and has been a TechStars mentor since 2009.

Photo Courtesy of iRobot

A private mission to the moon and sale of the movie rights—this was our first business plan when we started iRobot in 1990. The surprising thing was how far we actually got. The launch vehicle (a robot named Grendel) was developed and flight-tested on a very small spacecraft affectionately called a "brilliant pebble" at Edwards Air Force base. We had agreed to sell NASA the data collected to help finance the mission. We even recruited the producer of the *Blues Brothers* movie to be on our board of directors. Although it was an interesting and bold idea, it didn't work out in the end. However, we had found a way to get paid for the effort through government programs, got to work on a very cool project, and were far from disheartened. We knew that there were going to be more innovative and unique ideas in our future, and we set out to try again. We decided to pursue industrial cleaning robots in partnership with Johnson Wax, oil exploration robots with both Baker Hughes and

Halliburton, and robot toys with Hasbro. In each of these cases we were able to enter a market with a partner willing to shoulder much of the cost, do some great work together, create value for each other, and in each of these cases, exit the relationship with both our moral and financial positions intact. Of course, none of those business plans ultimately worked out.

We were doing more than treading water during this period. We were learning what our technology was both good and not so good for. More importantly, we were learning how to run a business and how to forge successful partnerships. We learned when intellectual property matters and when it gets in the way of progress. We learned that forcing people to do what you want may work when you have your own legion of lawyers, but for the rest of us, it is the interpersonal relationships that truly matter. We learned that very few people care how you accomplish something. Instead, these people care more about whether you create value for your end user.

Finally, we learned that a mission statement does actually make a difference. Ours, "Build Cool Stuff, Deliver Great Product, Have Fun, Make Money, Change the World" kept us unified with a common purpose while gut-wrenching change surrounded us. It reminded us that our goal was to have fun and make money. Most importantly, it reminded us that our mission was not only to make money, but to change the world in the process. This is a cause worth pursuing, even if it is to call your customers to tell them that (a) no, the robot isn't done yet, and (b) please pay us anyway so we can make payroll.

A company that is well-positioned to endure the hardships encountered during the early phases of its existence gives itself time to find success. In the case of iRobot, we may have been less successful at building toys and exploring for oil, but we were able to use that experience to build high quality machines that cleaned in a cost-effective manner, with the industry's most innovative artificial intelligence software. Also, we had survived long enough to reach a point when a fledgling robot company sounded like a relatively safe investment relative to many dotcom startups of the time. We were thus able to attract VC funding.

Under these circumstances, the Roomba was funded, designed, and born on Sept 15, 2002. We would have never reached this point if we hadn't kept iterating. And the world has never been the same since.

While Colin's story ends abruptly in September 2002 with the launch of the Roomba, that's also the beginning of the next chapter of the iRobot story. Brad keeps a list titled "Companies I Regret Not Investing In." iRobot is at the top of the list, as it is now a public company with a market cap around $500 million.

Brad knew Colin from MIT—they were fraternity brothers and friends. Colin started iRobot in 1990 and was still iterating in 2002 when he spent some time at Brad's house in Eldorado Springs, just outside of Boulder, Colorado. It was a beautiful day in the incredible canyon that Brad lives in and they spent the day talking about iRobot, entrepreneurship, and investors. Brad gave Colin some suggestions about funding iRobot and in the back of his mind was privately excited about the idea of investing in the company. He knew nothing about robots, however, and when he mentioned it one of his partners at the VC firm he was part of at the time (Mobius Venture Capital) at his Monday partners meeting, it was immediately dismissed since "the Japanese will crush all the U.S. robot companies." Brad never dug in further, was happy when iRobot was funded and ultimately went public, but always secretly regretted not having more courage to step up and participate in the financing. In this case, Brad also iterated—he realized that iRobot wasn't really a "robotics company," but in the vocabulary of Foundry Group (his current VC firm), it is a "human-computer interaction" company in which the magic is really software, even though the software is developed in a mechanical device. While iRobot is on Brad's list of "Companies I Regret Not Investing In," he too learned from the experience, iterated, and doesn't think he will make that particular mistake again.

Fail Fast

Alex White

Alex is founder and CEO of Next Big Sound, a company that provides online music analytics and insights, which raised about $1 million from Foundry Group, Alsop-Louie Partners, and SoftTechVC after completing TechStars in 2009.

Photo by Rebecca Stern

After my freshman year in college, I landed an internship at Universal Records in New York City and came up with the idea for a web site that would let anyone play the role of a record mogul and sign bands to their own fantasy label. For three years, I couldn't stop thinking about it but told virtually no one. During my senior year of college, I took an entrepreneurship course and formed a team to pursue this idea. We raised a seed round of funding, launched at the end of the summer and moved back to Chicago, where my three co-founders were still seniors at Northwestern. I was supposed to start a consulting job in New York City but quit before I started to pursue the business full-time. I spent the year sleeping on couches, touring the country helping manage a band and fighting my way to registering thousands of artists and users for our fledgling service. By

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the spring, we had been profiled in the *New York Times,* had several small investment offers, many overqualified individuals who wanted to work at the company, and barely enough money in our bank account to pay the streaming data costs we were incurring each month. This was when we applied to TechStars.

I tell you this background only to illustrate how much had been invested in this idea. I thought we had all the answers and would be able to figure out any challenge we came across. Millions of registered users? We'll get there. Thousands of unsigned bands uploading demo tracks? We'll figure it out. But I had come to realize that even if we accomplished these goals, it wasn't clear that we had an economically viable business.

We drove a thousand miles overnight from Chicago to Boulder brainstorming ideas. We knew that the high-level concept of our first site still really inspired us. How does a band become famous? How does a band go from playing in their garage to headlining a nationwide tour? We also knew that if we wanted to have the freedom, excitement, and opportunity to run our own business, we needed to find something financially viable.

On the first day of TechStars, we decided to change our idea. Many people were surprised, but the decision was easy. We were tired of sugarcoating our status and deluding ourselves about the engagement and registration numbers. Making money off a streaming music destination site was a challenge that no longer motivated us to stay up hacking late into the night and jump out of bed every morning to start working.

We were nervous about telling our newest investors that we wanted to drop the idea we applied with until David Cohen made it clear on the first day that TechStars invests in founders, not ideas. This gave us explicit permission to fail with our initial idea without having to shut down the company and fire ourselves. At TechStars, we were given the opportunity to give it a second try.

We'd heard the statistics like everyone else. We all know that failure is the likely outcome of any individual new venture. However, with each iteration in the marketplace, you give yourself a better chance for success. You miss 100 percent of the shots you don't take. You only truly fail if you stop trying. So fail fast. Learn quickly. And start again.

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Too many people take the phrase "fail fast" literally. It doesn't mean that you should make sure that your business fails fast. It means that you should be happy about having a bunch of little failures along the path to success, because if you're not failing, you're probably just not trying enough stuff.

Next Big Sound did an amazing job of failing fast. Alex and his partners woke up on the second day of TechStars and immediately began exploring several new ideas that grew out of their interest in the music industry and independent bands. At the end of the first week of the program, they started working in earnest on what turned into their music analytics product.

At first, they organized the data they were tracking in a way that band managers would find appealing, but as a result made it difficult for a typical end user to look up information on a band. After showing this early version to a number of people, they kept getting feedback that they should model their user interface after popular web analytics products like Compete and Quantcast, which tracked similar data for web sites instead of band mentions and song plays. They failed fast, scrapping their initial user interface and coming up with the one they use today.

During the summer, Alex and his partners listened attentively to all of the feedback they got, tried lots of different things, and continued to succeed by failing fast. On investor day, Alex completely nailed his presentation and Next Big Sound quickly raised a venture financing after the 2009 program ended.

Pull the Plug When You Know It's Time

Paul Berberian

Paul is a serial entrepreneur, having co-founded five companies, including Raindance Communications, which went public in 2000 and was acquired by West in 2006. He has been a TechStars mentor since 2007.

I started my fifth company in 2007. My first three companies were successful and the fourth company I started was off to a great start. So, I did what every serial entrepreneur does—I started a new one. I came up with the idea of a thing I called the "Zenie Bottle"—a beautiful, collectible physical object (similar to a Lava Lamp) linked to a social web site mash-up. I pulled the plug on the project a year later. Here is where I went wrong.

I built the business for my ego, not the market. The idea I started with was very simple: sell a novelty item that was fun to collect. The Zenie Bottle was a pretty glass bottle filled with a colorful substance that, when shaken, looked like a genie was living inside. But I didn't feel like selling a novelty item was a big enough idea, so I added elements to the business to make it more complex and hip. I attached a social web site mash-up in which the owner of a Zenie Bottle would have a virtual bottle on the Web where they could put pictures, music,

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and video into it so they could share it with their friends. I also created an elaborate story in the form of a serious web video of the origin of the Zenie Bottle with the goal of having the Zenie Bottle become a crossover entertainment experience. If it sounds complex, it was.

I ramped expenses before we had success in the market. If you are planning for success, that's good, but don't spend as if you are successful. I took our burn rate to more than $100,000 a month before we launched, which is fine for some businesses, but not a novelty business. All the unnecessary complexities I added, such as the web site and the video series, required us to spend the money. We quickly turned into an entertainment company, not a novelty business, well before we knew if our novelty concept made any sense.

I was embarrassed to tell people what I was doing. In hindsight, the idea was silly and didn't fit my personality. I told myself that I would be proud of my accomplishment if we had tremendous success. But that wasn't enough—I needed to be proud of what I was working on every single minute of every single day.

Ultimately, we were underfunded for the scope of our effort. We weren't sure of our identity. Were we a novelty item, a social web site mash-up, or an entertainment property? Nope—we were all three! In each category, someone other than us was already the winner. While combining all three may have worked, it would require Herculean efforts to rise above the din of other more focused companies. We were hoping to become a fad—with very little effort. While this would have been nice, it was a fantasy.

Any one of the mistakes mentioned could have been overcome, but the combination of all of them did us in. We realized our mistakes fairly early and decided that it was better to close up shop, return the remaining cash (about 20 percent of what we raised) to our investors, and sell the assets instead of thrashing around trying to reshape the business into something different.

> Brad was one of the investors in the Zenie Bottle. Brad had been a seed investor in Paul's second company (Raindance) and loved working with Paul. When Paul first mentioned Zenie Bottle, Brad didn't get it, but was amused by it. Paul was so excited about it at the time that Brad committed on the spot to invest in the angel round.

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When Brad saw the first prototype, he said to Paul something like "I didn't realize I had funded a bong company!" Paul ignored Brad and steered him to his computer, where he showed off all the cool ideas for the web site he was going to create.

A few months later, Brad and Paul had dinner. Paul seemed down and when confronted, admitted that the Zenie Bottle embarrassed him. It wasn't selling, no one really cared, and even he didn't really know why he was doing it anymore. Brad and Paul talked late into the night with Brad telling him much of what he had been thinking but hadn't been willing to talk about because Paul had been so enthusiastic about the idea. While it was easier for Brad to be a cheerleader and support his friend, it would have been much more valuable to Paul for Brad to say what he was thinking and feeling at the time. During the course of the evening, Brad came clean and said that he never really understood why Paul had been working on the Zenie Bottle.

A week or so after the dinner, Paul decided to pull the plug. As part of this, he decided it would be better to send the remaining money back to his investors rather than run things all the way to the end and use up all of his investors' money on something he didn't believe in. Once Paul admitted he wasn't excited about the Zenie Bottle anymore, he pulled the plug.

Now, pulling the plug, like failing fast, doesn't always mean that you shut down the company. The original vision of Paul's third company, Raindance Communications, was to create a video service on the Internet. Raindance was founded in 1996, well before Internet video was commonplace. Paul and his partners raised some initial financing, built a data center, created a streaming Internet video service, and got some initial customers. They quickly got the business up to $200,000 per month of revenue before hitting a wall and realizing that to build a substantial business they needed to do a number of things very differently. They were also frustrated with the customers and the market dynamics, as the amount of noise around Internet video was substantial, making it difficult for Raindance to stand out from all of the other offerings.

So they pulled the plug. They stepped back from what they had created and thought about what they could do better than anyone else in the world. As part of their Internet video business, they were working with audio conferencing technology with the idea of incorporating audio conferencing into Internet video in some way. They realized one day that there was a much bigger opportunity in transforming the way audio conferencing worked. Up to this point, audio conferencing was expensive, required human intervention in the form of an operator, and was impossible to control over the Internet. Paul and his partners decided to build on the technology and data center infrastructure they had created for their Internet video service and use it for a reservationless conferencing service.

Over the next several years, Raindance Communication built an $80 million company that helped make audio conferencing commonplace and affordable. Also, they were an early entrant in the web collaboration market, took the company public, became profitable, and were eventually acquired by a much larger company. By pulling the plug on the first incarnation of Raindance, Paul and his partners ended up creating a valuable company.

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In the summer of 2009, Paul Berberian talks about the failure of Zenie Bottle.