

In the late 1990s, there was a huge startup boom that resulted in the emergence of “Dot Com Bubble” in the early 2000s. Many great companies collapsed due to funding problems, however, a new wave of startups which were part of the Web 2.0 movement that focused mostly on user-generated content, emerged quickly.

Around 2006, the author Jessica Livingston got the chance to talk to founders of such startups from the early days before the first Mac to early Web 2.0 companies like Flickr and Blogger. These conversations are recorded to appear in Livingston’s book and they focus more on the ups and downs and lessons learned from launching your own startup rather than exact dates and numbers.

Even though technology has greatly changed and improved since 2007, the stories of these entrepreneurs and their interesting ideas are still relevant even today. Some of these businesses and technologies do not exist anymore, however, as people commonly say: “We can’t understand our future without first understanding our past.”

## Many startups like PayPal and Blogger changed their initial ideas and goals.

After talking to the founders of many startups, the author found some intriguing common qualities between some of the most successful of the past years. The most obvious and important common quality is the fact that many big startups ended with an idea or product different than they have originally planned.

PayPal is a great example in this case. Everyone knows PayPal as one of the most popular and easy ways to transfer and make payments online. However, co-founder Max Levchin’s initial plans and ideas were nothing like that.

In the late 1990s, Levchin was working on software for handheld computing devices such as the Palm Pilot. Everything changed when he created an emulator that generated single-use security passwords. At that time, people had to buy expensive devices to do the same thing or even several devices for different passwords and systems. Levchin’s new emulator software, however, made all those devices archaic, giving you the technology of Palm Pilot.

Around that time, the market for this service was not as big as some might think. So, what kind of information do people need to keep secure on their devices? thought Levchin. The answer was quite simple: credit card information. It led to software that let you securely transfer money from one Palm Pilot to another.

Levchin and his co-founder Peter Thiel gained around 300 users a day but they soon maxed out around 12,000 users. The most popular thing on their website was the online money transfer demo. This particular demo attracted around 1.5 million users, so it made it clear for them to focus their attention on something else: web-based money transfers. After the shift was made, they gained about 20,000 users a day which led to eBay purchasing PayPal for \$1.5 billion in 2002.

Blogger.com is another good example of success ending in a different way than planned. When Evan Williams and his co-founders started Pyra Labs in 1999, their initial goal was to make project management software. The blog was just one of the tools that they were working on.

However, by working on that simple tool, they made it very easy for anyone, from any computer to log in, write and publish their work for everyone to see. It was not related to project management in any way, and William nearly went bankrupt in the process, but thanks to his determination and the fans who supported him and the software, Blogger.com ended up as a success story. It gained more than a million users, made a huge profit and eventually acquired by Google in 2003.

## Innovative ideas are often regarded as confusing by people and prevent them from seeing their potential for success.

Another common quality between many early startups was that their ideas and plans were not always accepted easily, at least not at first. Innovative ideas tend to confuse people and prevent people from understanding them fully, which creates problems if your idea needs funding to develop.

This was the case for Steve Perlman and his WebTV idea. In 1995, Perlman was already a respected and important figure in Silicon Valley because of his contribution to Apple for

developing the first Mac with a color display. However, Perlman had difficulty selling his idea for interactive TVs that involved much more than only changing channels.

At that time, TVs did not even have program guides. Perlman realized some kind of a catch-22 problem: TVs did not have any interactive content because there was not any hardware for it. There was no hardware for it because there was not interactive content to prove that there was even a market for it.

Many people whom Perlman approached, had no confidence or belief that customers would want anything more interactive than just changing the channel. However, Perlman managed to prove them wrong. WebTV became MSNTV after being bought by Microsoft. In its first eight years, the product managed to generate more than \$1.3 billion in revenue.

Nowadays, interactive TVs that you can pause, rewind and record may seem pretty basic and doable. However, web-based email that you can access from any browser seems like a very stupid idea. In 1996, though, almost everyone accessed their e-mail from work, where internal networks and firewalls prevented you from accessing it anywhere else. In addition, before Hotmail was founded in the same year by Sabeer Bhatia and Jack Smith, many people believed that email accounts were things that you will always get from your boss.

Bhatia knew that there would be more people like him who would like to access their email from any web browser not only from work. However, many investors refused to help Bhatia and Smith's business plan. One day, one of them was willing to give them enough to prove to people that they could indeed make a web-based email service.

Soon after, their idea was proven to be very useful. Thanks to their clever idea of putting a link to the Hotmail site at the bottom of each email, they gained over 5,000 new users each day. By the end of their first year, Hotmail had 7 million subscribers, and not long after, they were acquired by Microsoft for a good amount of \$400 million.

## A good team is usually more important than the idea when launching a startup business.

Surprisingly, not all startups began with a great idea. In fact, some of them did not even have any idea at all!

This was the case for Joe Kraus, co-founder of Excite, an early web search tool. In 1993, Kraus teamed up with five close friends from Stanford University. They proved that having a good team is sometimes better and more useful than having a good idea.

At first, Kraus and his friends had no idea what their business would be. However, Kraus was not worried at all because he trusted his friends' passion and intelligence. For him, it was only a matter of time before they find something that would help them move forward.

Soon enough, when they were brainstorming at their favorite taco shop, they realized people were in need of a new way to search the digital info they were looking for since there was so much information being published in digital formats.

Their initial focus was on searching things like digital encyclopedias but they decided to turn to the web. Their technology was able to scale massive databases. Thus, they received \$3 million, and their new company, Excite, became the dominant search tool for the famous browser of that time: Netscape.

In 1996, there was another team who gathered without any idea. This team consisted of Arthur van Hoff and three others from the tech company Sun Microsystems. They were all interested in developing Sun's Java programming language. Therefore, they decided to put in \$25,000 each to start their own business despite not having any particular ideas.

Like Kraus, van Hoff was not worried about their situation. He had seen plenty of poor ideas get funded, and he also knew that the first idea is usually replaced by the second and better one. Having a team full of intellectuals helped them jump from one idea to another until they ended up with Marimba, a subscription-based software distribution model.

Today, most software updates automatically, but at that time, it was pretty rare to have a system that let everyone receive their update at the same time. This was especially important for companies like Morgan Stanley, with employees scattered throughout the world. It would be impossible to contact 100,000 employees to check to see if they updated their software.

Instead of relentlessly working on an idea to start a business, it is more important to have a diverse team that is always ready to work on an idea when it presents itself.

## Personal projects can prove to be extremely valuable such as Yahoo and deli.icio.us.

When the founders were annoyed about the fact that they could not access their email outside of the office firewall, Hotmail was born as a solution. In fact, many startups began to solve personal problems until the founders realized that millions of people suffer from the same problem and that they can also benefit from it.

Take Yahoo for example. It started as a collection of online footnotes in the form of web links. All the references were made in the Ph.D. thesis papers of two Stanford grad students: Jerry Yang and David Filo. Soon, the site started to become popular with new categories and links added based on suggestions of the fans.

It was growing so fast that Yang and Filo had to get help from their friend Tim Brady in order to create a business plan. They wanted to turn this hobby into a job and Brady managed to submit his plan to some of his classes as a final project for graduation.

Soon after, Yahoo became a real business and received an initial \$1 million in funding. In 1996, they went public and eventually became one of the web's pioneer empires.

The story of deli.icio.us is not very different than Yahoo. The site started in the 1990s as a private collection of online bookmarks made by Joshua Schachter who was working as an analyst at Morgan Stanley. Around 2001, he managed to create 20,000 bookmarks with the help of others. This proved to be highly useful in a time period when finding cool things was not easy.

Since the collection was huge, it needed to be organized. He started tagging the links with short descriptions like “math” or “food.” He then made it public. Within a year, more than 30,000 users joined. It became so popular that he received \$1 million and it was eventually purchased by Yahoo in 2005 for \$30 million.

For Schachter, it was very easy to solve his problem of organizing by putting simple tags. However, it was extremely beneficial for others to find what they were looking for.

## Sometimes simpler is better as seen with Apple and ArsDigita.

Most of the time, the best solution to a problem is not going to be a complex tool. Like Joshua Schachter who used descriptive tags to organize his bookmarks, the best solutions are often the ones that are simple and easy to use.

Simplicity has always been an extremely important policy of Apple even in its earliest days when Steve Wozniak was working in his apartment to create the first Apple computers.

When Wozniak was in high school, he taught himself how gadgets worked. However, he would not only take things apart and put them back together, after putting them apart, but he would also try to make them work with fewer parts. This way, they could be made cheaper and also made more elegantly with fewer chances of things going wrong.

According to Wozniak, doing more with less is what it means to be a true entrepreneur. A true entrepreneur has to find a way to create something with limited resources and to make them better than things that are being sold on the market.

The creator of the web design company ArsDigita, Philip Greenspun had similar ideas and strategies to Steve Wozniak. After creating a simple but very popular site called Photo.net, he was asked to rebuild the websites of many famous companies.

After working and rebuilding a few sites, he released a free design framework called the ArsDigita Community system which was open for anyone. Even after launching this system,

the requests for design work did not stop. He published a book called Database Backed Websites (1998) which increased the demand for design work.

Greenspun's business offered simple, quick and clean designs solutions and which is why he became very popular. His websites did not require complicated coding that took lots of time to create. He was also trying to create a business that presents programmers as problem solvers, not some human robots who sit all day and write codes.

ArsDigita's annual growth was around 500 percent. They worked for clients like Levis and Hearst Publications. However, there is a common problem known as growing too fast. Everything went sideways when Greenspun wanted to venture capital. All but one of the founders got expelled. New leadership wanted to turn the startup into a slow and expansive company such as IBM. Eventually, ArsDigita was destroyed and showed people what could go wrong when you try to venture capital.

## Too many investors mean too many risks, find other ways to profit or try to stay cheap.

As Philip Greenspun found out, venture capital almost always comes with a hefty price to pay. It could be the addition of investor-approved executives or handing over shares in the company or even giving a percentage of the profits. If you are launching a startup and want to control your business yourself, many founders recommend that you should reduce costs or avoid bringing new investors.

Joel Spolsky knew about Greenspun's problems with investors. He founded Fog Creek Software to follow the example of ArsDigita while avoiding their mistakes.

Spolsky wanted to have a consulting company that would attract talented programmers just like Greenspun. In order to do that, he had to create an environment where programmers are treated with respect. Thus, he made sure every programmer had their personal office with comfortable furniture, be able to travel first class and even get four weeks of vacation each year. The investors do not like to see such perks as they think it is an unnecessary act and waste of money. They prefer to see programmers all lined up and ready to work in horrible conditions so that they could profit more.

Therefore, when they were starting out, Spolsky had a useful piece of bug-tracking software called FogBugz. With this program, he made sure that he did not need venture capital. In the meantime, he discovered an interesting thing about software sales. A high-priced software makes people believe that it is more valuable and thus more appealing than normal. He raised the price from \$199 to \$999 and he managed to sell more pieces than before.

## When making something for people's needs, the important thing is honesty, as Paul Graham has discovered.

There were many bits of advice given by the founders of startups to the author. Probably the most repeated one was how it was extremely important for entrepreneurs to listen to their customers' demands. You should keep this in mind and your focus should be on creating something that would prove to be useful and valuable to others.

Paul Graham of Viaweb and Y Combinator advises you to do this because of its crucial importance. In fact, they printed the phrase "Make something people want," on their Y Combinator t-shirts. As Graham emphasizes, the initial aim of a startup should be about creating something that makes other people happy. Later, that happiness will be converted into money.

Even though it may sound simple, Graham has seen many people come up with an idea that they think would make people happy but, in the end, it failed to do so. This is why it is very crucial to listen to your customers, learn what they really want and work on it to make it possible.

Another thing Graham highly appreciates and values are honesty. Through Viaweb, Paul Graham and his co-founder Robert Morris have created a web-based software for setting up online stores. In addition, they wanted to create the best e-commerce software available at that time. They were highly interested in their customers' feedbacks and overall satisfaction. Also, they often checked their competitors' products. In the end, they could say with pure honesty that Viaweb offered the best software on the market.

Another benefit of being honest is that when an entrepreneur says that his product is the best out there, the client will be able to distinguish whether you are telling the truth or not. It

is really hard to measure the value of truth or honesty. However, if you are not very successful at being a salesperson, being an honest person will become an important asset for you to help win over clients.

For instance, Paul Graham always considered himself to be more of a tech guy, he was never comfortable with being a salesperson. However, because he was completely honest with his customers, he found out that he could be very persuasive and gain new clients. Other salespeople might argue that you need to be articulate, have charisma, and competence in order to sell your product, but Graham has found that honesty can be as powerful as other qualities.

The other way of avoiding venture capital is simply to stay cheap. A lot of founders including Paul Graham, the founder of Viaweb and the mysterious man behind the prominent startup incubator, Y Combinator, advises you to do so.

According to Graham, for every penny you take from investors means that you will have less autonomy and you will be at the mercy of others. Thus, learn to spend as little as possible and adopt a more minimalist style rather than a luxurious one.

## Because it was time for photo sharing, Flickr exploded.

There are some cases in a startup business that your product comes just at the right time to compliment other things that are happening in the spirit of the time. This was the lucky case for photo sharing software Flickr.

Caterina Fake and her husband Stuart Butterfield did not plan on their timing as Flickr was another case of a successful product that was different than the initial startup idea. In 2002, Fake and Butterfield were working on a video game called Neverending which was inspired by popular pet games like Tamagotchi. In such games, you take care of a virtual pet, give it toys, play with it and even trade items with others.

They also planned to add a feature that would allow users to share photos with each other. They were waiting for some work on the game to be finished. In the meantime, Fake

continued to work on this photo-sharing feature. She eventually enabled users to post their photos on a web page and it helped Flickr to explode.

After looking back, Fake can now see how and where all the pieces fell into place for Flickr. At that time there were not any photo sharing programs. However, by 2004, personal blogs and the first wave of social media like Myspace and Friendster were preferred over others to share photos. In addition, digital photography made it easier for people to share their photos on the web.

Until then, many online photo services like Shutterfly made a lot of money by providing people with printing services. For this reason and more, Fake feels lucky and glad that Flickr was not their main project because the pieces of research show that there was no market for photo sharing that did not aim to make people print them.

However, in 2004, everything started to change for the better some might say. People started to realize that photo sharing was becoming one of the main activities that made social media platforms like Myspace and Friendster fun to use. Moreover, the recent rise in personal blogs made people more comfortable and accepting the idea of sharing their personal photos with the public. Before these blogs and social media platforms, people tend to keep their online photos private for many reasons.

## Founders at Work: Stories of Startups' Early Days by Jessica Livingston Book Review

Between the time when Apple started to make its first computers in the late 1970s and the early 2000s when personal blogs and user-generated content started to become very popular, startups changed several things about business in the United States. Thanks to the author's interviews with some of the founders of the most successful and famous startups around this time, we can observe many common qualities among various stories. These common qualities include: many startups began without any initial idea or ended up with another, finding ways to do more with less can lead to success in many cases, trying to solve a personal problem could benefit others too and earn you millions of dollars and finally the first idea or the plan is not always the final one.

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