Facebook is good for more than just social networking; use the company as a business model for building the startup of your dreams

tom taulli

HOW TO CREATE THE NEXT FACEBOOK

Seeing Your Startup through, from Idea to IPO

Apress®

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Foreword

Being an entrepreneur is hard. It's a roller coaster every day. You need a strong stomach, eyes on the future, a soul that wants to change the world, and a heart that believes you can do it. You learn, you fail, you learn some more. The Internet landscape has changed a lot since I started my first company in 1999. Since Facebook launched, we've all been pushed to step up our game. There's been a shift in the technology field to move faster than ever before, while creating value for your users.

"Move fast and break things." "Done is better than perfect." Before these clichéd mantras made their way into mainstream startup culture, they described a simple Facebook philosophy—to ship code fast and continuously iterate. Although we've always moved pretty quickly in Silicon Valley, Facebook has driven us to move even quicker. At BranchOut, we're pushed to keep up with Facebook's weekly development cycles because we're an application built on their platform. We've embraced the developer-driven culture behind the "move fast" mentality because the faster we ship code, the quicker we can make mistakes and learn from them.

There are a lot of competing interests at play when you're building a company. Facebook had a lot of interest early on in diverging from the path they were on. In 2004, Friendster attempted to acquire Facebook for $10 million. Had that happened, who knows if Facebook would have added photo sharing the next year, eventually opened up to anyone with an e-mail address, and ultimately made the world as open and connected as it is today? When you're building a company, there's a lot of outside pressure to hit particular metrics and deadlines. You get a lot of advice. But it all comes down to listening to your users. If you don't build a passionate company, they won't come back. At BranchOut, we're trying to make our users' lives better. We're trying to help people represent themselves professionally so they can network, find mentors, and land their dream jobs.

Create value. Run fast, go big, and change the world.

Rick Marini
Founder of BranchOut

About the Author

Tom Taulli is based in Silicon Valley, in the heart of IPO land. On a regular basis, he talks with many of the top tech CEOs and founders to find the next hot deals and discover which startups are stinkers. A long-time follower of the IPO scene, Taulli started one of the first sites in the space, called WebIPO, in the mid-1990s. It was a place where investors obtained research as well as access to deals for the dot-com boom. From there, he started several other companies, such as Hypermart.net, which was sold to InfoSpace in 1999. Currently, Taulli is an advisor to tech companies and writes extensively on tech, finance, and IPOs. His work has appeared on Forbes.com, TechWeb, and *BusinessWeek*. He is also frequently quoted in publications like the *Wall Street Journal* and is regularly interviewed on CNBC and BloombergTV. You can follow him on Twitter at @ttaulli.

Introduction

OK, the title of this book is definitely provocative. Who wouldn't want to create the next Facebook and become extremely wealthy and famous? No doubt, the company's success has inspired many people to become entrepreneurs. It has become the hot thing nowadays.

But my book is not about replicating Facebook. After all, the company has become the mega winner in social networking. History has shown that when critical mass is established in a new market, the leader usually keeps its position for many years. Just look at Google, Microsoft, Skype, and eBay.

Achieving dominance is often a matter of a few key decisions. Companies like MySpace and Friendster could easily have become the leader. Hey, my book might have been called *How to Create the Next MySpace* or *How to Create the Next Friendster* if history had been different.

The goal of this book is to look at the critical aspects of how Facebook went from $0 to over $50 billion in 8 years. But I don't just cover the success; I also look at the mistakes. Some were almost fatal.

Here's a rundown of the book's main areas:

Chapter 1—"The Mission": Your mission should be a huge goal. You want to change the world in some way, and this is a powerful driver for success. It gets employees excited as well as investors and customers.

Chapter 2—"Legal": This stuff is boring and tedious but critically important. In the early days, Mark Zuckerberg nearly destroyed his company as a result of bad legal decisions.

Chapter 3—"The Product": Zuckerberg is a product genius. But to be successful, you don't have to be a natural-born prodigy. This chapter looks at best practices to make products that customers love.

Chapters 4, 5, and 6—"Raising Capital," "The Pitch," and "Deal Terms": Here's everything you need to know to get investors to write checks. Even highly successful companies need to raise money—and Facebook has been fundraising from the start. In its history, the company has raised more than $18 billion.

Chapter 7—"Go-To-Market": This topic gets little attention from entrepreneurs, and it's a big oversight. If you don't have a solid go-to-market strategy, your venture will probably fail.

Chapter 8—"The Financials": This is another boring topic (sorry!). But don't skip it. Although the tech industry goes through periods where fundamentals don't seem to matter much, they are temporary manias. In the end, you need to understand the nuts and bolts of a company's financials.

Chapter 9—"The Business Model": This is how your company makes money. Chances are, you have one core revenue stream. This chapter looks at some of the main business models that have worked.

Chapter 10—"Being a Great CEO": Zuckerberg was not a natural-born CEO. In fact, he was terrible at the role, at least during the first couple of years of Facebook's history. But he was determined to get better. Being a CEO is definitely something that can be learned.

Chapter 11—"The Team": Zuckerberg has always understood the importance of creating a cohesive team. But he also realizes that there are times when people need to be let go.

Chapter 12—"M&A": Since 2007, Zuckerberg has struck over 25 acquisitions. Most were ways to get talent, a process known as an acqui-hire. This chapter explains how to bolster your company with deal-making.

Chapter 13—"Selling Your Company": Zuckerberg is focused on keeping his company independent. But the fact is, most companies are eventually sold off. This chapter looks at how to maximize the value of a transaction.

Chapter 14—"IPO": In 2012, Facebook came public. Yes, it was a challenging deal, but the company had the second largest transaction in US history. This chapter shows what it takes to go public.

Chapter 15—"Wealth Management": As an entrepreneur, you have the opportunity to get rich. However, you need to make sure you manage your wealth properly. There are many horror stories about entrepreneurs who have lost fortunes.

Chapter 16—"Conclusion": In this chapter, I look at some takeaways and big opportunities for you to think about.

Why should I be the person to write this book? Well, I do have a unique perspective. I have started several companies in tech and have raised capital from angels and venture capitalists. I also sold one of my companies to a public company. At the same time, I've made angel investments and have advised companies.

All of these experiences have been extremely valuable. In this book, I try to bring out these lessons. I wish I had known these things when I started my first business!

For the past 15 years, I have also been a writer. I have written 10 books on finance and technology. I have also written for publications like *BusinessWeek* and *Forbes*. In the process, I have talked to many great entrepreneurs, such as Google's Sergey Brin and Twitter's Evan Williams. It has been a great learning experience.

Enough with the intro. Let's get started!

CHAPTER

1

The Mission

The revolution is not an apple that falls when it is ripe. You have to make it fall.

—Che Guevara

If you go to Mark Zuckerberg's Facebook page, you'll see that it says: "I'm trying to make the world a more open place."[1] It's a grand mission for any person. But, of course, it is essentially the mission of his company. In Zuckerberg's letter to shareholders in Facebook's initial public offering (IPO) prospectus, he says: "Facebook was not originally created to be a company. It was built to accomplish a social mission—to make the world more open and connected."[2] This is not the kind of mission you often associate with a company, but all great companies are about a cosmic vision, and that vision is always based on the power of a founder like Howard Schultz, Walt Disney, Henry Ford, Steve Jobs, and Bill Gates. They are more than just chief executive officers (CEOs). They are revolutionaries.

Every day, Facebook affects the lives of millions of people. It helps make friendships strong and even leads to marriages. Facebook makes it possible to understand different cultures and ideas. In some cases, its impact can be game changing. Facebook is an essential communication tool in times of disaster, such as when the horrendous tsunami hit Japan in March 2011. It can even lead to radical changes in societies, as seen with the Arab Spring.

In Facebook's IPO prospectus, Zuckerberg wrote:

> *By giving people the power to share, we are starting to see people make their voices heard on a different scale from what has historically been possible. These voices will increase in number and volume. They cannot be ignored. Over*

[1] www.facebook.com/pages/Mark-Zukerberg/156559947734345

[2] "Facebook IPO Prospectus," May 17, 2012, www.sec.gov/Archives/edgar/data/1326801/000119312512240111/d287954d424b4.htm

> *time, we expect governments will become more responsive to issues and concerns raised directly by all their people rather than through intermediaries controlled by a select few.*[3]

Now, it is true that, despite its mission, Facebook is no utopian paradise. Change can get messy. Facebook can actually destroy friendships or lead to bullying or divorce. It is a place where mean, terrible things happen. Yet on the whole, Facebook has been a positive force in the lives of countless people around the world. Why else would more than 500 million people visit the site every day?

The popularity and empowering nature of Facebook has turned Zuckerberg into one of the towering figures of his generation. Besides being one of the richest people on Earth, he has many other notable accomplishments, such as being selected as *Time Magazine*'s Person of the Year in 2010. He even got to meet the president. All of this and Zuckerberg is only 28 years old.

But it all started with a mission—something that resonates with everyone on Earth—and that's a big lesson for entrepreneurs. You need to create something worth working for. You must want to wake up every morning with a sole and abiding obsession with your mission. The mission will drive your employees, it will get your customers excited, it may even change the world.

Zuckerberg's mission was not necessarily original. In fact, the concept of a social network had many historical precedents, the first of which—the telegraph—sent electronic messages across wires and required the knowledge of a special language called *Morse code*. The mastermind of this technology was Samuel Morse. While attending Yale in 1808, Morse became interested in the concept and uses of electricity. Then, in 1832, Morse took a voyage that would change his life and the course of history. On this trip, he met Charles Thomas Jackson, an expert in electromagnetism, who showed Morse several experiments with his electromagnet. It was then, after he began to understand the physics of electromagnetism, that Morse started to develop the idea of a telegraph, which would use electromagnetism to send messages across long distances using cheap, low-quality wire. There were several other inventors who had the same idea at the time, but Morse had more financial resources and was quicker than the others to share his invention. Morse launched the telegraph in Morristown, New Jersey, in 1838, and the technology spread quickly. It even led to the creation of a fast-growing communications business—Western Union.

The telegraph was only the jumping off point in the history of social networking. In 1876, Alexander Graham Bell invented the telephone. As was the case with the telegraph, there was someone else, Elisha Gray, who had the same idea at

[3] Ibid.

the same time. However, Bell got to the patent office first—by only a few hours—which demonstrates that speed is always crucial in technology!

Zuckerberg had the same kind of experiences with Facebook. There were other sites, like Friendster and MySpace, that were also based on the same concept of an online social network. But Zuckerberg did things better and faster. Is it any wonder that one of his favorite songs is Punk Daft's "Harder Better Faster"?

As is the case with all great new technologies, Facebook had many doubters. It's natural for critics to doubt anything that is truly innovative. When Western Union evaluated the telephone, its conclusion was: "It has too many shortcomings to be seriously considered as a means of communication. The device is inherently of no value to us."[4] With regard to Facebook, critics doubted that people would put all their personal information on a web site. But when Zuckerberg launched Facebook, he was convinced of his mission and that Facebook would be the best way to pursue it.

Facebook is not alone in the determined way it seeks to fulfill its mission. All of today's successful companies—companies of all kinds and in all industries—similarly air their commitments to the world and then strive, day in and day out, to keep them. Table 1-1 contains the mission statements of just a handful of today's most successful companies.

Table 1-1. Mission Statements from Current Successful Companies

Company	Mission Statement
Zynga	"We founded Zynga in 2007 with the mission of connecting the world through games. We believed play—like search, share and shop—would become one of the core activities on the internet." www.sec.gov/Archives/edgar/data/1439404/000119312511343682/d198836d424b4.htm
Pandora	"Our mission is to enrich people's lives by enabling them to enjoy music they know and discover music they'll love, anytime, anywhere. People connect with music on a fundamentally personal and deeply emotional level. Whether it's a song someone first heard 10 years ago or one they've just discovered, if they connect with that music on our service, a strong bond is forged at that moment with Pandora. Just as we value music, we also hold a deep respect for those who create it. We celebrate and hold dear the individuals who have chosen to make music, from megastars to talented new and emerging artists." www.sec.gov/Archives/edgar/data/1230276/000119312511165534/d424b4.htm

[4] Western Union internal memo (1876)

Company	Mission Statement
Zillow	"Our mission is to build the most trusted and vibrant home-related marketplace to empower consumers with information and tools to make intelligent decisions about homes." www.sec.gov/Archives/edgar/data/1334814/000119312511192519/d424b4.htm
Amazon.com	"Our vision is to be earth's most customer centric company; to build a place where people can come to find and discover anything they might want to buy online." http://phx.corporate-ir.net/phoenix.zhtml?c=97664&p=irol-faq#14296
Starbucks	"Our mission: to inspire and nurture the human spirit—one person, one cup and one neighborhood at a time." www.starbucks.com/about-us/company-information/mission-statement/
Nike	"To bring inspiration and innovation to every athlete in the world." http://help-us.nike.com/app/answers/detail/a_id/113/~/what-is-nike's-mission-statement%3F
Google	"To organize the world's information and make it universally accessible and useful." www.google.com/about/company/

Have Passion for What You Do

You may have a great mission but it must be something you are extremely passionate about. If not, it will be mostly hollow. As a blogger for Forbes.com, I hear a lot of pitches from startup entrepreneurs and it is usually clear when they are not excited about their mission or that they do not even have one!

I can only select a few startups about which to write, and they need to catch my attention quickly. If the first few sentences of their pitch e-mail are not interesting, I'll probably just transfer the message to the "Media" section of my Gmail account. Rarely do I look back at any of them. And even those companies that pique my interest and with which I agree to set up a meeting to hear what they have to say, I find that many of the presentations are lackluster. The founders usually spend too much time on their background and the technology of their product. When it comes to explaining their company's vision and strategy, their message is usually muddled, which is an ominous sign. Based on my experience, I know that many of these companies eventually just fizzle out.

I could go on for several pages documenting all the dud presentations I've seen and heard, but let's focus on the positive, shall we? Let's look at one of the exchanges I've had that stood out. In September 2007, I had a phone interview with Mint.com's founder, Aaron Patzer. The company, as most people know by now, allows users to manage their finances better by importing their financial information from banks and credit cards into one central database. Mint.com then provides helpful reports, charts, and financial tips and suggestions to its users.

Although the product itself was intriguing—and a possible disruption to Intuit's Quicken franchise—this was not what made the call memorable. Instead, it was Patzer's pure enthusiasm for what he had created. He talked about how Quicken didn't work for him and how he wanted a product that could help solve his own problems with managing his finances. Simply put, Patzer had made it his *mission* to make it easier for people to manage their finances.

During a later demonstration of the product, Patzer showed me his personal Mint.com account. His enthusiastic presentation revealed that he had a classic case of "eating his own dog food"—that is, he had become a passionate user of his own product. What's more, by showing me that he, himself, used Mint.com to manage his personal finances, Patzer was making another statement to bolster his product: It was secure. Security is a big-time concern for users, but Patzer talked about some of the Herculean efforts he had made to ensure that Mint.com would keep its users' personal financial information safe. All in all, it was an impressive demonstration and I was not surprised that Mint.com became an instant hit. Fearing the disruption, Intuit shelled out $170 million to buy Mint.com in September 2009.

Although passion is not a prerequisite for success—I personally think nothing really is—passion is high on my list of factors that ultimately help good companies thrive. Passion is infectious. It fosters enthusiasm among the employees, the customers, and the media. It's a powerful force. Perhaps most important, passion helps founders maintain their drive to work hard and succeed. Wouldn't you rather spend your time working on something you love? No wonder top entrepreneurs often say they would work for free.

There are few entrepreneurs who are more passionate about what they do than Rick Alden, who took up skiing at a young age in 1970 and then got hooked on snowboarding in 1985. Wanting to bolster the sport, Alden formed National Snowboard, a marketing company that specialized in snowboarding events. Ultimately, National Snowboard's work became a key factor in making the sport a huge success. After he sold the company in the mid 1990s, Alden then started Device Manufacturing, which focused on developing snowboard boots and bindings. He sold that company as well. Then, in 2003, Alden got the idea for his next venture, and it would be his breakout hit. At the time, he was listening to his iPod while on a chairlift in Park City, Utah, and he wondered: Why aren't there premium headphones for this device? Again, Alden wasted little time and started a company called Skullcandy. In the company's early days, it was not easy to get traction in the market, but he was persistent. It was his passion, after all! Over time, Skullcandy caught on and became a top lifestyle brand. By 2010, sales reached $35.7 million; a year later, the company went public. Cool, huh?

Let's look at another example. When Zuckerberg started Facebook, it was not his full-time gig. He was a student at Harvard and had his hands full with a number of other projects, one of which was Wirehog, an app that enabled users to share files of all types, with a focus on music files, and Zuckerberg found it to be more interesting than Facebook. Even as Facebook began to take off, Zuckerberg still thought Wirehog would be his breakout idea. Eventually, though, he realized it was a mistake and abandoned the project. Wirehog never caught on, and this was probably for the best, because Zuckerberg was concerned that entertainment companies might sue him and his company for copyright infringement. In addition to Facebook and Wirehog, Zuckerberg created a tool called *Synapse*, which played music based on user's interests and which caught the eye of companies like Microsoft. He also built some other highly popular apps, all of which allowed users to share with one another. CourseMatch, for example, made it easy to see who was taking what courses in a given semester, whereas Facemesh showed pictures of two students of the same gender side by side and allowed viewers to vote on who was the more attractive of the two. Even though not all of his programs and applications proved to be enduring, the fact is that all of Zuckerberg's entrepreneurial activities revolved around his deep passion for coding and his special interest in creating apps that allowed for sharing with other people. The software apps he developed were tools that allowed him to pursue his goal of connecting and sharing with others.

Be Committed to What You Do

Changing the world is not a part-time gig. It needs to be an obsession. When Jeff Bezos saw an opportunity to create an e-commerce company that sells books, he quit his high-paying job as a hedge fund manager, took his family across the country to Seattle, and along the way created the business plan for Amazon.com. Bezos (rightly) thought the Internet was a megatrend. Zuckerberg had a similar experience. He and several of his Harvard pals left school during the summer of 2004 and rented a house in Palo Alto to build Facebook. There was not much of a plan but he wanted to devote his full attention to the website. By the end of the year, he decided to drop out of college.

These stories are fairly common. Consider Steve Streit, who lost his job in 1999 as a disc jockey. At the time, he had six kids and no job lined up. But he was passionate about his idea for a prepaid debit card. He put all his savings into creating a company, called Green Dot, to realize his dream. He eventually raised venture capital, struck a major distribution agreement with Walmart and took the company public in 2010 at a billion dollar valuation.

An entrepreneur needs to be highly committed and focused. Distractions can be fatal. True, there are some exceptions. Steve Jobs was able to run Apple and Pixar at the same time. But as we all know, people like Steve Jobs do not come around often.

Aim High

As an up-and-coming entrepreneur, you need to care more about your mission than you do about anything else—including your company. Marc Bennioff, the founder of Salesforce.com, certainly does. I had a chance to talk to Bennioff during the early days when he founded his company, and I watched as its growth skyrocketed. For the most part, Salesforce.com created software for customer relationship management (CRM). CRM software is not very exciting to most people, but Bennioff found a unique way to deliver it to companies: He pioneered the cloud computing model, which meant that companies could access Bennioff's CRM software via the Internet. This approach to distribution was disruptive, because traditionally software was installed on corporate networks and required lots of hardware and servers—not to mention high-paid consultants. Bennioff was convinced that the cloud would be much better. When I spoke with Bennioff, he rarely mentioned CRM. Instead, he railed against traditional software. To me, this was a much more interesting message than hearing about the features of a CRM suite.

As I got to know others at Salesforce.com, I quickly realized that they also deeply understood the company's message about the power of cloud-computing and believed in it. There was never any confusion regarding this when I was talking to someone from Salesforce.com. Over time, Salesforce.com became the symbol of cloud computing. When businesses decided they wanted to adopt cloud-based solutions, the first place they turned was Salesforce.com. This brand advantage has allowed Salesforce.com to expand its platform to other software categories. As of 2012, Salesforce.com has a market value of more than $20 billion.

Think Big

Many entrepreneurs want lifestyle businesses, which are not focused on strong growth. It is really about having an operation that provides enough profits to allow much more time for other interests. Who wouldn't want to run a web site from, say, Maui, and spend a few hours a day working? Some people actually do this, and the endeavor can be lucrative, but these types of businesses do not generate much wealth. In this book, I look at those businesses that create wealth that is *life changing*. This means that there is often little time for anything but the business, so it helps to be passionate about the business in the first place.

Building a megabusiness may seem like a huge risk, but there are certainly some benefits from doing so. For example, large companies have a much easier time recruiting talent. Who doesn't want to work for a company that has a big opportunity ahead of it? In addition, it is much easier to secure venture capital if you are seeking funding to create a large company. Few venture capitalists (VCs) even consider supporting a company that is gunning for a market opportunity less than $1 billion. For them, investing in smaller companies is just not worth the risk.

Despite this basic reality, I run into a lot of entrepreneurs who do not realize the importance of size and who try constantly to nab introductions to VCs to no avail. I do my best to steer them in the right direction and mention that they might need to rethink their goals—that is, to think on a grand scale. For the most part, thinking big is not easy for entrepreneurs, and as a result, their efforts to raise venture capital are often quixotic.

Now, thinking big does not mean you become a success automatically, but doing so will likely give you some downside protection. How? Let's consider an example: Suppose you start a company that is focused on a market that has a $2 billion potential. After several years of hard work, you reach revenues of $50 million. Although your company is nowhere near to becoming the next Facebook, you have still achieved a great outcome and your company certainly has value! Now let's say you decide to sell it. Even if you do not make a substantial amount from this deal, because your VCs will probably get the lion's share from the sale, you are still considered "bankable." You can take your lessons learned from this experience and then roll them over into your next venture. You probably have a few million bucks in the bank, as well, to start your next business.

This is the process that Mark Pincus, one of the original investors in Facebook, went through with several ho-hum startups. However, by 2007, he had leveraged his experience and network to create Zynga. By late 2011, he had raised $1 billion in an IPO and was put on the Forbes Billionaires List.

Someone else who thinks big is Elon Musk, who has affected various industries and millions of people across the world. His entrepreneurial journey has been far from easy—and his ventures have endured several near-death experiences—but he has learned from every step along the way. Musk started coding when he was 10 years old. He sold his first program, a game about space, 2 years later for $500. Then, in the mid 1990s, Musk started an Internet content publisher, called *Zip2*, which he sold for $300 million. His next venture was X.com, which focused on online financial services. To bolster growth, he merged the company with rival Confinity, which was cofounded by Max Levchin and Peter Thiel (the latter was an original investor in Facebook). The new company became known as *PayPal*, but it had a high burn rate and nearly ran out of cash. Thiel managed to raise some much-needed capital in April 2000. The company went public and was sold for $1.5 billion to eBay in late 2002.

Although Musk could have retired easily after the sale of PayPal, he was still restless to change the world, so he invested much of his net worth in several megaconcepts. One was Tesla Motors, which develops electric cars. However, during the financial crisis of 2008, the company very nearly went bankrupt, endangering Musk's finances in the process. Somehow, though, Musk was able to raise enough capital to save the company, and in June 2010, he took Tesla Motors public in the first IPO of a U.S. automaker since Ford went public in the mid 1950s.

Meanwhile, at the same time that Musk was building Tesla, he was also creating SpaceX, which develops space launch vehicles. He used innovative engineering techniques to accelerate the manufacturing process and snagged a $1.6 billion contract from the National Aeronautics and Space Administration. In May 2012, SpaceX launched and delivered cargo successfully to the international space station. The only others to do so include the governments of the United States, Russia, and China. Oh, and Musk is only 40 years old.

Be Prepared to Fail

It's a gruesome fact that most startups fail. They go absolutely nowhere. In light of this reality, it is amazing that entrepreneurs even start companies. Something must be wrong with them, right? Well, maybe entrepreneurs are wired differently. Although most people are risk averse, entrepreneurs *love* risk. They thrive on it. More important, to the most successful entrepreneurs, failure is not a stopping point. Instead, it represents yet another learning experience along the path to eventual success.

Even Zuckerberg has had his share of failures. Did you know that Facebook tried to launch a social network for the workplace? It was a disaster. So was Zuckerberg's early mobile product, which used SMS (short message service) messaging to access Facebook. It was so complicated that people needed a chart to understand the functions. Then there was Beacon, which was a downright terrible idea. Beacon showed a user's purchases to his or her friends, which created lots of problems; some people even found out about their birthday and Christmas presents! Beacon was so bad that it tarnished Facebook's reputation, but Zuckerberg learned from these experiences and became stronger.

Success is a paradox: If you are not failing, then you are not succeeding. No one is perfect, including history's standout business leaders like Steve Jobs and Bill Gates. Table 1-2 presents a few examples of people who made mistakes but still came out on top.

Table 1-2. Examples of Businessmen Who Failed

Individuals	Failures
Kevin Systrom and Michel Krieger	Systrom and Krieger's first product, Burbn, was a failure, but they learned some valuable lessons and went on to create Instagram.
Bill Gates and Paul Allen	The first startup of Gates and Allen was Traf-O-Data, which found little traction.
Steve Jobs	Jobs got kicked out of Apple in the mid 1980s. He then started Pixar and NeXT, both of which struggled during their early years and Jobs nearly went bankrupt.
Walt Disney	Disney was fired from a job at a newspaper because his editor said he lacked imagination and had no good ideas. Disney started several businesses that went bankrupt.

When you experience a failure, keep that experience at the forefront of your mind. Try to learn helpful lessons from it. Failure isn't fun, but the process can be extremely valuable, which reminds me of a true story. I won't go into the names of the founders or the companies they created. Those details are not important. Rather, the lessons that were learned in the aftermath of the failure are what's key.

Let's rewind to the start of the Internet boom, in 1994. Two entrepreneurs, Jane and Joe, started their own Internet companies, both of which grew quickly. The market was certainly big enough for several strong players, and the founders were able to raise several rounds of venture capital before taking their respective companies public. By the late 1990s, Jane and Joe were both worth billions. Then, suddenly, the Internet market gave way—and so did the valuations; Jane and Joe were now facing possible bankruptcy. To avoid the collapse of their companies, they raised money at low valuations and had to fire hundreds of people, many of whom were friends. It was an agonizing experience. However, what happened next was crucial. Joe saw the experience as a failure and became risk adverse. Even though his company was beginning to experience growth again, he moved his business along at a slow pace. He tried to avoid any long-term commitments, such as investing in new technologies or hiring people. Joe ultimately sold his company for about $700 million. True, this is a great deal, but it could have been much better.

You see, Jane did just the opposite. She continued to believe that her opportunity was huge, and she started to get aggressive with her investments. She hired more employees. She even struck several large acquisitions to add new products and customers. It was risky, but Jane's company's growth *exploded*. When Joe was selling his company for $700 million, Jane was selling hers for nearly $7 billion.

Put It All Together

The content of blogs like Techcrunch, VentureBeat, and Pandodaily, and the stories about the entrepreneurs in this book may be intimidating to aspiring entrepreneurs. How can you compete? How can you raise the financing? Is your idea good enough? How do you build the right team? Before you get too overwhelmed, it is important to take some deep breaths and think about how other great entrepreneurs got their start. Steve Jobs and Steve Wozniak started Apple in a garage. Mark Zuckerberg started Facebook in a dorm. So, what is it that sets the Jobs, Wozniaks, and Zuckerbergs of the world apart? The answer is this: These founders started small, but they had lots of energy, passion, and focus. They also had little or no business or startup experience. Instead, they figured things out along the way.

So think big, but start small. As seen in the chapter, the "big" part is the mission, which should always be the driving force of the company. You should also be exceptionally passionate about it— almost becoming an obsession. Is your mission something you would quit your job for? If not, you probably should keep your job.

In the next chapter, we'll get deeper into the process of building your venture. We'll take a look at making sure you build a solid legal foundation.