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Evan Williams: From Blogger to Odeo (A)

Evan Williams longed for the "simple" days of Blogger, his previous venture. Although his Blogger experiences had included a major blow-up with his co-founder that had resulted in legal proceedings, a brush with near-bankruptcy, and the laying off of his entire team, Williams had become even more disillusioned with his current venture, Odeo. Odeo, a podcasting pioneer, had debuted almost two years before and had gotten off to a very strong start, with a high-profile debut at a prominent industry conference, coverage on the front page of the New York Times' Business section, and the raising of a large round of financing from a top-tier venture capital firm.

However, for several months, Williams had felt trapped, unable to control Odeo and its strategic direction. His attempts to find an acquirer had failed, layoffs had begun, and he was now facing a meeting with an increasingly hostile board of directors. At that meeting, he was very tempted to resign so he could move on to his next project and regain the thrill of being an entrepreneur.

A Shy, Small-town Boy

Growing up on a farm in the small town of Clarks, Nebraska, Williams was constantly creating things. His early toys included erector sets, tinker toys, and small electronic devices he could tear apart to rebuild. Later, he built his own bikes and skateboards, as well as wooden tree-houses on the farm. His father, an independent farmer and an entrepreneur, had a similar penchant for inventing things for the farm. Williams attended school with a few kids from the area, but never warmed up to it. He was unhappy with the quality of the education and strove to do something different or exceptional. It seemed to him that anyone with real potential moved to the larger city of Lincoln, two hours away, to escape from the dying town of Clarks. When his parents divorced when he was 16, Williams decided to move with his mother and sister to a town of 20,000 people 30 miles away, which "seemed like a metropolis" to him. Despite his shyness, he managed to make friends with a few like-minded peers there.

Although he attended college at the University of Nebraska (which both of his parents and two siblings had attended), he considered it "a time-killer" and dropped out during his sophomore year. Instead, he was determined to "get my own thing off the ground." He briefly toyed with mail-order schemes and apprenticed for free for half a year with a direct-marketing guru in Key West, Florida, before moving back to Nebraska. In 1993, Williams agreed to start a company with his dad, based on what he had learned about direct marketing. His dad agreed to fund the business, "a publishing

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Professor Noam Wasserman and LP Maurice (MBA 2008) prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

company," with only a vague idea of what they would actually sell. His girlfriend joined the company, as did Williams' brother and several college friends from Lincoln. After a couple of failed projects, Williams started exploring whether there might be money to be made on the Internet. One of their first products was a "How to Use the Internet" video with software and a manual. Over time, Williams shifted the company's focus to Web development and hosting, but he couldn't sell much work in what was still an early market. After three years of working on clients' projects and continual financial losses, Williams decided to fire his employees and shut down the company.

> Working on other people's ideas depressed me. I wanted to work on my own ideas instead. Also, I got burned out and didn't want to be in business with my dad anymore. I was pretty depressed about how much money we had lost; I had lost my dad's money and felt like a failure. I had lots of friends involved who didn't get paid everything they deserved. It was a mess with our relationships and the failed projects.
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> It was a train wreck management-wise; I was the head of the company but had no idea what I was doing. I needed a break from trying to run things. So we defaulted on our lease and ended things.

After reflecting on the experience, Williams focused on two big mistakes. First, "The roles among the 4 principals were never clear and that caused resentment." Second, Williams realized that a lack of focus had impeded the quality of the company's work:

> When I shut down the company in 1996, I realized I had started 32 different projects during the previous year and not finished any of them. I was constantly thinking up new ideas, and found it better to abandon the current thing so I could work on the new idea. I was very short-sighted. Things I started took longer than expected and we were under a lot of money pressure the whole time. So I was always looking for short-term projects that might be able to make a lot of money quickly, instead of working on the slower projects I had already started.

Still in credit-card debt from college and from Florida, and owing taxes and debts to other creditors, Williams did some freelance Web-development work, which also deepened his technical skills. When Williams' girlfriend moved to San Francisco, he decided to relocate to California, which was in the early days of the Internet boom. Williams responded to an ad for a marketing coordinator at O'Reilly Media, a company founded by Tim O'Reilly in 1978, which was located outside of Silicon Valley in Sebastopol, and was hired. Although O'Reilly was a mid-size company with a laid-back office style, Williams discovered a new type of professionalism he had not encountered previously: "I realized I shouldn't have tried to run an office without working in one first. I learned basic things like how to run a meeting and how to develop software." He got to know Tim O'Reilly and some of his key executives, but didn't meet anyone who might be a potential co-founder in the future and "felt very isolated" within the company. However, he now felt connected to the broader Internet world with which he had been so fascinated over the past few years. After 9 months, Williams left the company and moved closer to the dot-com epicenter in San Francisco.

At first, Williams paid the bills by doing contract web-development work for HP and Intel at a rate of $85/hour. His work focused on intranet groupware-collaboration tools. To solve his own personal organizational needs, Williams had the idea to create an "online collaboration tool." He became tempted to create a company to develop such a tool, deciding, "This contract work is really getting old, the boom is going off, everyone's creating stuff, there's all this opportunity. I have a little money in the bank and I'm no longer shell-shocked from my first company."

Williams attended a networking event where he met Meg Hourihan, a technology consultant who was looking for an entrepreneurial adventure. Hourihan said: "It felt like Evan was the first person I had met who saw the potential of the Web that I saw, that it was life-changing."[1] The pair had been friends for a few months and had even dated briefly when Williams approached Hourihan looking for feedback on his idea for an online-collaboration tool. To Williams' surprise, she wanted to get involved and offered to be his co-founder. Williams argued that he should be CEO. She agreed, and took on the title of "vice president." Hourihan asked for a 50-50 equity split, but Williams proposed a 60-40 equity split in his favor, which she eventually accepted. In January 1999, they founded Pyra Labs, and Williams invested a small amount of savings.

Pyra, "Stuff," and Blogger

As soon as the company was formed, Williams shifted his contract work with HP from his own name to the company's name. Initially, Williams did all of the work, but eventually Hourihan learned the necessary skills and helped with the HP work. The $3,500 weekly fees received from HP allowed Pyra to start developing its product in self-funded mode; one person working for HP full-time paid for two people to work on Pyra at lower wages. Although the HP revenue stream was stable, it severely limited the time the team could devote to developing Pyra. The team thought that if they could eventually get 1,000 users to sign up for Pyra at $10-20/month using a subscription model, they could generate up to $20,000/month, which would cover their salaries and development costs.

A friend of Williams' from Nebraska, Paul Bausch, was Pyra's first hire. A software developer, Bausch was a salaried employee from the start, even though Williams himself was not drawing a salary, and Bausch received 5% equity. To help build his online-worktable idea, Williams developed an internal tool called "Stuff" with which they would track Pyra's features, and Stuff quickly became the center of their own internal collaboration. As a side project, Bausch wrote an addition to Stuff that allowed the team to publish comments to the company's external blog directly from Stuff. Williams thought others might find Stuff useful and wondered if they should turn Stuff into a standalone product, instead of just a way to manage Pyra. To experiment with that idea, he registered the domain "Blogger.com" in June 1999. However, Bausch and Hourihan were strongly opposed to turning Stuff into a product. Bausch thought Stuff was trivial technically, while Hourihan feared it would be a huge diversion from efforts to launch their main product. Thinking back to his past lesson about the need to focus, Williams recognized it would be a diversion, but still liked the idea.

In mid-August, Hourihan went on a vacation. Unable to get the Stuff idea out of his head, Williams convinced Bausch to develop the product by telling him, "Don't worry -- Meg will like it when she sees it." The pair quickly developed Stuff into a stand-alone product and launched it to the public as "Blogger" on August 23rd. Upon her return, Hourihan was quite angry. Williams admitted that "it wasn't a very co-founder friendly thing to do," but he argued that Blogger could serve as an "entry point" for Pyra, the larger and more comprehensive product. Blogger would be the free "hook" that would allow them to later develop relationships with paying customers for Pyra.

Initially, expectations for Blogger were low because the number of identifiable web-log users was in the low hundreds. Williams tried to get attention for Pyra by courting influential bloggers, since publicity from them would have a multiplicative effect on getting other users. By late 1999, several well-known bloggers were using Blogger, helping spread the word about it. The team warmed up to the idea of Blogger as their core product, and launched a new version of Blogger in November 1999.

[1] Greene, Kate, "What Is He Doing?" Technology Review, November/December 2007, p. 47.

Carefully Raising Financing

After some contact with potential investors at industry conferences, Williams started thinking about raising a round of capital to help accelerate the development of his product and to allow him to stop working on the HP contract. He was unable to make much progress getting investors interested, and it was unclear whether they were only interested in the Pyra product or also in Blogger. Although Blogger relied on simple technology, Williams had come to believe that it could serve as a powerful tool for self-expression, which could potentially further the democratization of media. Blogger could empower millions of users worldwide to publish their own daily newspapers, but with fresh and frequent content updates. To Williams, achieving this Big Idea was what mattered most.

It was the height of the dot-com boom and it was very tempting to try to raise a large round from traditional VCs. However, because he didn't want to give up a large percentage of the company, Williams decided to raise a small round and to target non-VCs. Williams started talking to O'Reilly and to Conde Nast, which were more excited about his vision for Blogger. The company closed a first round of $500K in May 2000 at a $2M pre-money valuation. The terms were particularly appealing to Williams because it would leave the founders with control of 80% of the company. Also, he thought the company would become cash-flow positive soon with Pyra subscriptions ramping up, again justifying raising a small round. A 3-seat board of directors was created: Williams, Hourihan, and a representative from O'Reilly. When the round was completed, the founders' stock agreements also became official for the first time, and the founders' equity stakes began vesting over 4 years.

Williams hired a few designers and programmers, as well as a customer-service person, to build the team to 7 people. With the new money, it also became more feasible to focus efforts on Blogger. In July 2000, the team finally discontinued development of Pyra Labs' other product.

Divergence

Williams was now forced to find a business model for Blogger or else he'd have to rely on outside money in the future. In Fall 2000, as the market turned down, the founders started having concerns about cash. At about the same time, the company was starting to receive requests from big companies wanting to install Blogger within their enterprises. Reacting to this, the team developed and installed a beta version of what it called "Blogger Enterprise" for Cisco, in the hope that this could create a new revenue stream. Unfortunately, most of the team had no experience selling to enterprises. Also, although the concept of "blogs within companies" seemed useful, it did not arouse Williams' personal passions for a "democratizing" consumer version, and he worried that working on both ideas would distract him from working on the big idea of democratizing media.

Once again, though, the rest of the team felt differently. Although the team appreciated Williams' "hallucinogenically optimistic" vision, it thought the vision was impractical. In particular, there was budding demand for the Enterprise version, and Hourihan thought that Blogger Enterprise was their best chance of making money and keeping the company going. The engineers and designers, who did not want to see the company die, rallied behind Hourihan. Hourihan thought Williams should have considered her pragmatic view, instead of following his idealist hunches with dire consequences for those around him. Williams was surprised that his employees were rallying behind her instead of him and realized that they had put their trust in her because he had not spent enough time maintaining his relationship with them. However, Williams refused to compromise on his vision.

Internal tensions continued to rise between Williams and Hourihan. Hourihan's responsibilities had not been clearly defined from the outset, and since both founders liked to do the same things, there was an ongoing struggle over how to divide the product and business-development tasks. Now, with an internal deadlock over Blogger's Consumer versus Enterprise focus, Williams and Hourihan intensified discussions to find a solution to the company's woes. Williams and Hourihan also met regularly with their board member from O'Reilly in cafés to discuss various alternatives.

Pyra had discussions about a potential sale to Moreover, a private headline-aggregation venture whose founder personally liked and used Blogger's technology. Moreover offered $1M of the company's stock for Blogger. Moreover would shift Blogger's priorities from building a consumer product to revenue-producing activities, but Blogger's employees would be assured of having a job. Pyra also had talks with Speedle, a new start-up based in New York that eyed Blogger's distress as a potential opportunity. Speedle made an unattractive merger offer that valued their own yet-to-be-launched company at more than Blogger. On the plus side, Speedle did operate in the same general consumer-technology segment as Blogger, would maintain Blogger's consumer focus, and would allow Williams to maintain control of Blogger and its vision.

Hourihan and Pyra's employees pushed hard for the Moreover deal. Williams, however, strongly opposed the Moreover deal, which he thought was a "crappy option" where he would lose control of his company and where two years of intense effort would result in a pile of illiquid Moreover stock. Williams instead advocated merging with Speedle.

However, when Williams engaged in negotiations with Speedle over its low-ball valuation, Speedle lost interest and walked away. Soon after, Moreover's board refused to grant approval for the deal, since it didn't understand its founder's business case for buying Blogger. In December 2000, Williams warned all employees that he wouldn't be able to meet payroll soon. Williams had invested his own personal money and maxed out his credit cards, and Hourihan had co-signed for some corporate expenses and relied on credit cards to cover her own personal expenses. In desperation, Pyra initiated a "Server Drive" by posting a request for funds on the company's blog. The request suggested sending in $10-20 to help Pyra upgrade its hardware. Since Pyra had a reputation for being "nice guys," had become an important part of the Web community, and had accumulated a lot of goodwill, Pyra received several $100 donations and even got an offer from a web magazine to donate a server. By January 2001, Pyra had raised $17K. However, since Pyra had promised to spend the donations on hardware, Williams earmarked the money for new servers, instead of using it to pay salaries to employees.

Morale further deteriorated when Pyra missed a salary payment. A month later, with Pyra's cash gone, Williams told his employees: "OK, everyone is laid off, as of today, including me. Legally, I think I have to lay you off since I can't pay you, but please stay." At this point, Hourihan and Williams disagreed about who should be CEO. She was confident in her abilities and had convinced herself and the rest of the team that the only way to pull off a turnaround would be if she could call the shots herself. Williams didn't deny that he had gotten Pyra in a mess, but also didn't agree with Hourihan's solution and refused to make her CEO. As a result, Hourihan decided to leave Pyra, as did all of its employees. Following their departure, Williams was alone. He reflected on this time:

> When everything fell apart, it was especially hard for me because my social life was wrapped up with my work and so I didn't really have a support network of friends to fall back on or find comfort in, because they were all gone with my work, with my employees. Things even got tense with my roommate, who was now dating Meg. My roommate didn't work for Pyra, but his brother did, and his brother was actually the first guy to quit. It was just very awkward because I felt like all these people very close to me, in sort of this intertwined circle, were all against me, all of a sudden, as well as their extended community of friends who we would socialize with. Because there were more of them than there were of me, it just seemed like I was rejected from my entire social circle.

Flying Solo

Williams vowed to keep working on Blogger. After all, there were still thousands of users to support, in addition to the obligation he felt to his investors after taking $500K of their money.

> I didn't seriously consider throwing in the towel because I was really hurt and upset by all of these people giving up on me and considering what we'd done a failure. Due to the nature of the service, there was public commentary on the Web about what had gone on. There were hurtful attacks on me from people I considered friends. I just wanted to prove everyone wrong. I just isolated myself and used it as fuel to work harder.

Overnight, the burn rate fell from $50K+ per month to about $5K for servers and rent. Although he felt sadness and loss, Williams also felt an immense sense of liberation. He was now completely free to do what he wanted with Blogger.

Thanks to the $17K Pyra had raised during its Server Drive, Williams could make much-needed upgrades to Pyra's hardware infrastructure. For the larger part of 2001, Williams hunkered down and worked on keeping the servers up, troubleshooting issues and fixing bugs. To do this, he taught himself Linux system administration and Java. However, there was no real progress on Blogger's product for many months. Luckily, this period coincided with the dot-com bust, so there were few serious competitors to Blogger. Williams still thought that, despite the lack of new funding for startups, there was a still a large opportunity for blogging as millions of new consumers signed-up for broadband Internet access. Williams soon fell into a nocturnal pattern, wherein he ended his social nightlife and did nothing but work, driven by his optimism that things could only get better.

In March 2001, after Hourihan's departure, Williams moved to buy back Hourihan's unvested shares within the authorized 90-day buyback period. Since Hourihan had left after 2 years, she had vested half of her stock. However, Hourihan felt she was entitled to keep more of her founder stock. Lawyers became involved and the disagreement dragged on for 6 months. Although it consumed only 10% of his time, Williams estimates that it drained 50% of his daily energy. Also, Williams was now having trouble paying his rent, since he was paying more to his lawyer than he was paying himself during this period. Williams and Hourihan eventually reached a compromise negotiated with the help of a Pyra advisor who was a mutual friend. Williams ended up agreeing to almost all Hourihan wanted, after deciding that he needed to be practical and free himself to focus on Blogger.

During this time, Williams was contacted by Dan Bricklin, an HBS alum and creator of VisiCalc (the first commercially available spreadsheet program, launched in 1979) who was now founder and head of Trellix, which made web-publishing tools. Bricklin was a big fan of Blogger. He offered to help Williams with revenue-generating strategies, and offered Blogger a consulting contract to integrate some of Blogger's features into Trellix. In April 2001, Williams crafted a partnership deal with Trellix that brought in $40K. At about the same time, he was joined by a volunteer named Jason Shellen who knew about Williams' situation and offered to help. Williams felt that he was not good at handling partnership-development and licensing tasks, so he assigned Shellen to those relationship-intensive areas of the business. With the Trellix money, Williams hired a contract programmer and requested the help of a friend from Kansas City. Although the Trellix deal produced some immediate revenue, it also slowed product development on Blogger.

In May 2001, in part because of Blogger's recent success with the Trellix deal, the *Industry Standard*, a major trade periodical, chose Williams for its "Net 21" list of "21 people who made lemonade out of lemons." It profiled him as "The Idealist," mostly due to his refusal to sell his company in order to pursue his vision of the Big Idea. The profile said:

> Like most Web ideas hatched in 1999, Blogger probably could have attracted some fast money, perhaps marketed as a tool to let office workers share notes, ideas and schedules. Williams fielded some informal interest from Cisco employees, but Pyra Labs never made a sales pitch to corporate brass. "It was a matter of keeping life simple versus going for the money," says Williams. … With the Trellix deal, though, Blogger gets in front of millions of home users, a prospect more appealing to Williams than selling to corporations. Plus he'll have time to tinker with it: "Blogger has to evolve to stay interesting." For Williams, interesting is more important than profitable.[2]

However, there was still acrimony in the start-up community about Williams' situation. Soon after the *Industry Standard* profile was published, a parody titled "The Egotist" appeared on the web, deploring his willingness to sacrifice his team in the quest to achieve his Big Idea.

In June 2001, Pyra launched an ad-free version of Blogger for $12/year. At the time, Williams was manually processing every order via PayPal emails, and was manually removing the ads in each blog that signed up. The uptake of the product surprised Williams. Although the ad-free Blogger brought in less than $5K per month – only enough to pay Williams' rent and some hosting charges – it completely changed Williams' perspective on the business. For the first time, he felt the service was making money from users in a sustainable way. That feeling lasted until late 2001: While spending Christmas visiting his mother in Iowa, Shellen called to tell Williams that someone had hacked into the Blogger platform and changed thousands of user passwords. Since he had not hired a system administrator, Williams spent all Christmas day at Kinko's trying feverishly to control the damage.

Back from the holidays, Williams launched Blogger Pro, which included many features users had wanted for a long time. While the ad-free version of Blogger targeted casual bloggers, Blogger Pro targeted serious bloggers who were much more likely to spend money on the product. Due to pent-up demand, the product was an immediate hit, generating $50K in its first month alone (about 10X the revenues from ad-free Blogger) and stabilizing at a slightly lower level thereafter.

Rebuilding Pyra Labs

With multiple products generating cash flow, Williams started hiring to rebuild the team. He used Craigslist and blog posts on Blogger.com to recruit employees who already used the product and who had skills he needed. His first hires were a system administrator, a developer, and a customer-service agent, the last of which had become necessary when Blogger started charging money for Blogger Pro. The company grew to 5 people. For these hires, Williams was reluctant to make any "long-term messy commitments," so most of the new employees came in on contract. He also resisted granting equity stakes as a substitute for paying salaries. However, Williams did extend a full-time offer to Shellen in Spring 2002, and gave him a small amount of equity, in the low single digits.

Williams continued his march to build Blogger into the preferred blogging platform on the Web. In the summer of 2002, as Blogger was getting more traction, the blogging landscape started heating up (see **Exhibit 1** for the growth in blogging). It became clear to Williams that Blogger would need to be more aggressive, could no longer afford to be the "leader on a shoestring," and might have to raise more outside capital. Soon after, Williams was approached by a venture firm from Japan. Williams and that VC hit it off, and they negotiated a term sheet for $1M of capital at the same terms as Pyra's first and only round.

[2] Abramson, Ronna, "Net 21 - Industry Trend or Event," *Industry Standard*, May 2001.

At the same time, Tim O'Reilly suggested to Larry Page and Sergey Brin of Google that they take a close look at Blogger; Brin had recently returned from a conference about blogs and had been asking about them. A few days later, Williams received a call asking him to come to Google to discuss Blogger. Williams prepared by brainstorming all the ways Blogger could collaborate with a search company. (It did not occur to Williams that Google might be interested in buying Blogger, since Google hadn't bought anybody at that point.) However, when Williams got to the meeting, he was surprised to meet with Google's corporate development team, who jumped to the point: "It's hard for someone like us to partner with something as small as you. Why don't you just come here to do all that stuff?" In December 2002, Google made a low-ball all-stock offer for between $3M and $6M, depending on the value of their stock. The offer was also loaded with stock options for both Williams and Shellen. Williams remembers that a difficult component of this negotiation was understanding what Google stock was really worth, given that Google was still a private company at the time.

Once again, Williams had big reservations about the deal: "After four years of pouring my heart into Blogger, I saw a lot of risk in giving up control, especially with another term sheet on the table."[3] Williams liked the VC's term sheet, since it was a friendly deal where he would remain in charge of Blogger's destiny. In contrast, once Blogger became Google's, Williams would no longer control it. Also, Williams did not like the fact that Google was offering few details about its reasoning for the deal and about Blogger's fate post-acquisition. On the plus side, he assumed Google would provide resources so that he could achieve big things with Blogger. Williams agonized over the decision.

After a few more meetings with Google, it seemed like the deal was dead. Then, Tim O'Reilly called Google's lead counsel to get him to increase the price. The deal closed in February 2003 at a reported valuation nearing $10M,[4] and Blogger became Google's first real acquisition. Google agreed not to require Williams to have an earn-out. Instead, it gave him his stock from the sale immediately upon closing of the deal, along with an additional stock-option plan vesting over 4 years.

Stifled at the Googleplex

A few days before the deal closed, Pyra's team of six had already started working in an empty Google conference room. At first, Williams recalls that it felt exciting to be a stranger in this foreign land. That was followed by two big surprises.

The first surprise was when Williams realized that he and his team were extreme outsiders within Google. Although Williams was reporting directly to the VPs of Product and Engineering, Blogger was "an anomaly," in that people didn't quite know what do with the team and the product. Reinforcing this was the fact that, except for Williams and Shellen, Google had not yet formally hired the team on a full-time basis, but rather only on-contract. Williams and Shellen were seen as "key people" whom Google needed to hire to make the acquisition work, but Google wanted to minimize any other unvetted hires and had not yet developed a clear process for post-acquisition hires. In the meantime, Williams' engineers felt like "second-class citizens" and did not receive employee benefits, which was a major source of frustration and low morale in the team. It ended up taking Williams six months to get all of his team hired. Williams' second surprise was the lack of resources he received to expand Blogger. Getting Google's resources behind Blogger was a major motivation for selling to them, but it seemed like Google thought of Blogger as a tiny niche company for which adding

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[3] Livingston, Jessica, *Founders at Work*, Apress Publishing, 2007, p. 123.

[4] Greene, p. 44.

resources was "sort of an afterthought" and getting engineers onboard was hard. When he did get engineers assigned to the Blogger team, they were often not a good fit with the team.

On the positive side, Williams learned valuable long-term lessons about hiring only top-quality people, revering engineering, and thinking big: "One of the most consistently impressive things about their whole operation – especially the founders, Larry and Sergey – was their ability to think very, very big. Which wasn't something that I was used to doing, even though I aspired to big things. The scope of their thinking was just mind blowing to me." Williams continued to be interested in growing Blogger within Google and in fulfilling his commitment to his acquirer, but started developing one of his pre-Google hires into his right-hand man. Williams let him take firm control of Blogger as Williams gained confidence that Blogger would be in good shape even if he left.

In August 2004, Google went public, and Google employees were allowed to sell up to 10% of their stock within 30 days. At that point, Williams sold enough stock that he could turn his attention to a new venture. Twenty months after Blogger's acquisition, Williams parted from Google.

On to Odeo

Back in 2002, Williams had struck up a conversation with a neighbor named Noah Glass. Glass had recognized Williams from a photo in a Fortune magazine article. Glass was already familiar with Blogger because he had built a product called AudioBlogger that was a small extension to the Blogger platform. AudioBlogger allowed a blogger to call a phone number and leave a voicemail that got posted directly to a blog as an MP3 file. Although the service was a novelty and had few users, Williams arranged a small deal from within Google to make AudioBlogger available for free to users.

While he was still working at Google, Williams had also started having conversations with a fellow Google employee named Biz Stone. To make his 40-minute commute to Google more enjoyable, Williams had recently bought an Apple iPod. For listening material, he was paying for professionally-produced spoken word audio content that synced with his iPod. However, he felt that there should be a way to download user-generated audio content to his iPod. To Williams, this new concept had many parallels to Blogger, especially in that it helped to democratize audio. Through their discussions, Williams and Stone came up with an idea to create a promising new distribution channel for audio, which would soon become known as "podcasting."

Given the parallels to Glass' AudioBlogger experience, the discussions between Williams and Glass turned toward this new idea. Williams encouraged Glass to pursue it as a new venture, and Williams agreed to provide $70K in seed funding. In exchange for the seed funding and for acting as an advisor to the venture, Williams would receive 30% of the equity and Glass, who would be working full-time on the venture, would receive 70%. Williams asked Glass to put together a budget and a plan to build a beta version of a podcasting tool. Glass hired a few programmers in December and they began building two distinct modules: content creation and content delivery. Williams and Glass decided to name the new venture "Odeo."

In January 2005, Williams received a call from an organizer of a prestigious annual conference called Technology, Entertainment and Design (TED). Despite the fact that Odeo had not announced anything, the organizer had heard about Odeo's forthcoming product, and he was very excited about the prospects for podcasting. He asked Williams to unveil Odeo's product at TED in February. Encouraged by all the excitement, Williams thought it would be silly to turn down such a great opportunity to promote the product, and agreed to launch at TED. Williams was also eager to show that he was not a one-hit wonder with Blogger, which gave him added incentive to become fully involved in the process of developing Odeo. He started working daily on the product's user interface, did some of the product's coding, and ended up investing another $200K of his personal money, bringing his equity stake to 50%.

Williams continued to build the argument for why podcasting might be a huge opportunity. Audio seemed to be the "last non-democratized medium" because there was still a high barrier to publishing audio and thus no user-generated radio content. In addition, audio was the only medium that could be readily consumed while doing other things; a user couldn't watch a video or read a blog while driving or working, but he could listen to audio. Furthermore, with the explosive growth of the iPod, users could increasingly take their content with them anywhere. Reinforcing Williams' thinking about podcasting's potential, a technology columnist named Doc Searls reported that on September 28, 2004, Google had shown only 24 hits for the word "podcasts," but that that number had passed 100,000 three weeks later and was doubling every few days. (The word "podcast" would go on to be named 2005's Word of the Year by the *New Oxford American Dictionary*.)

The TED organizers helped Odeo get front page exposure in the Business section of the New York Times. However, despite its best efforts, the Odeo team was not ready to launch at TED, so Williams demonstrated a prototype and announced the product but did not launch it there.

Raising Big Money

With Glass and the team continuing to develop the product, Williams turned his attention to fundraising. Williams met with business contacts from his Blogger days who trusted him and were ready to become angel investors in Odeo. In March 2005, Williams told Glass that if Williams were to commit full-time to Odeo, Williams would need to take over as CEO, at least until they could attract a more experienced CEO. Glass initially resisted the idea, but eventually agreed. Since Glass wasn't technical enough to become CTO, his role remained relatively undefined, although he did continue to oversee most of the product development. With his role settled, Williams got commitments from angels for a $1M angel round.

However, that month, Williams was also introduced to George Zachary, a general partner at Charles River Ventures (CRV), who was excited about podcasting's potential. When Zachary heard about the angel term sheet, he asked Williams and Glass to pitch to CRV's partners. Since the Odeo team thought it should explore its options, and since CRV was one of the oldest and most prominent VC firms and should be able to help grow Odeo, Williams agreed. Because they were pitching to a VC and not to angels, an advisor suggested they say that they wanted to raise $5M instead of $1M, and in the lobby of CRV before the pitch, Williams changed his slides to read "$5M." Right after the pitch, Williams got a verbal commitment from Zachary to invest $5M with the same dilution that he would have had with the $1M angel round. The founders could keep the same 70% of the company whether they had $1M or $5M coming in!

There were a few differences between the offers that gave Williams pause. First, the CRV offer came with a 1.5X liquidation preference, while the angel offer had none. The VC offer would result in a 5-person board (Williams, Glass, Zachary, an angel investor, and one outside board member), while the angel round would result in a 3-person board (Williams, Glass, and an angel investor). However, when he asked his advisors, their overriding advice was, "If the money is on the table, take it." Williams accepted the $5M.

The team was thrilled about closing the round so quickly, and Williams was keen on fulfilling his commitment to investors as Odeo's CEO. He also figured that, "Things are lining up so easily, I'll just be CEO for now to learn stuff along the way." At the same time, he was not convinced that he wanted to be CEO of Odeo for a long period of time, and he looked forward to passing the baton to a new CEO sooner rather than later. In fact, part of Williams' excitement was that with VCs involved and with a lot of capital raised, Odeo should now be able to hire an experienced CEO who could take over from him and free him to find another exciting project.

With the new money, and with CRV pushing the company to strengthen its management team, Odeo started hiring rapidly. Over the next few months, using executive recruiters, the start-up tried to hire three senior, experienced executives, and succeeded in hiring two: A VP of Product and Marketing, and a Director of Engineering. Although Williams retained some control of product and marketing decisions, he gave the new head of engineering full control of the technical team and issues. At the next level down, Odeo hired a few programmers and the team grew to 14 people.

In June 2005, as Odeo was finalizing the last details of the financing agreement, Williams received an invitation from Apple to come chat. Upon his arrival at Apple's Cupertino headquarters, Williams was greeted by an executive who proceeded to show Williams a new version of iTunes that would be released in a few weeks and included podcasting. The bad news: iTunes would now solve many of the same problems that Odeo's software had been trying to solve for months, especially on the content-delivery side. Like Odeo, Apple sought to offer customizable one-click downloading and subscribing to a large library of podcast content. Apple owned the channel (iPods) that Odeo had hoped to use and could thus tightly integrate iTunes with the iPod product. The good news: Odeo thought it still had two competitive advantages. First, Odeo was a website and not a software tool that required installation by the user, making it easily accessible to a larger group of users. Second, Apple focused only on content delivery, while Odeo focused both on delivery and creation, giving users a new way to create their own podcasting content and potentially increasing loyalty to Odeo.

Odeo now felt that it needed to have an end-to-end product that would "own" the burgeoning podcasting market, and that Odeo needed to develop it as fast as possible. However, in July 2005, after a series of engineering setbacks, Odeo's full product was still not ready. The content-creation module, which included an audio recorder and a mixing tool that Williams had demonstrated at TED to great reviews, was delaying the product's launch. Feeling the need to introduce something to combat Apple's momentum, Odeo launched its product without the content-creation module. The product was received with a whimper by the press and general public. The content-creation module was finally launched in September, although it "still didn't work great." Soon after, Williams authored a widely read blog-post entitled, "Ten Rules for Web Startups" (see **Exhibit 2**).

A major issue was that the team was struggling to agree on a single product roadmap and was not guided by a strong product vision. Odeo's board grew increasingly frustrated by the start-up's lack of a set plan and milestones, while Williams grew frustrated that the VC was not helping Odeo more. Williams' toughest challenge was figuring out a direction for Odeo, but instead of helping him with that challenge, the board seemed to be much better at providing guidance about growing the company only after its direction had been set.

In early 2006, with $3.5M of the $5M still remaining, Williams decided to explore going in a whole new direction. He encouraged his team to start from a blank piece of paper and invent something new. Jack Dorsey, an engineer at Odeo, proposed a tool that would let users send short 140-character text message status updates to groups of friends. From all of the ideas that were proposed, the team developed prototypes for 3 or 4, and two were selected as finalists: Dorsey's status-update idea and one related to mobile technologies championed by a VP. Based on gut instinct, Williams thought Dorsey's tool had the most potential. Glass became deeply involved in the status-update project and began pushing Williams to spin it out as a separate company under Glass' leadership. However, Williams did not think the project would achieve its full potential under Glass' leadership.

Pushing to Quit

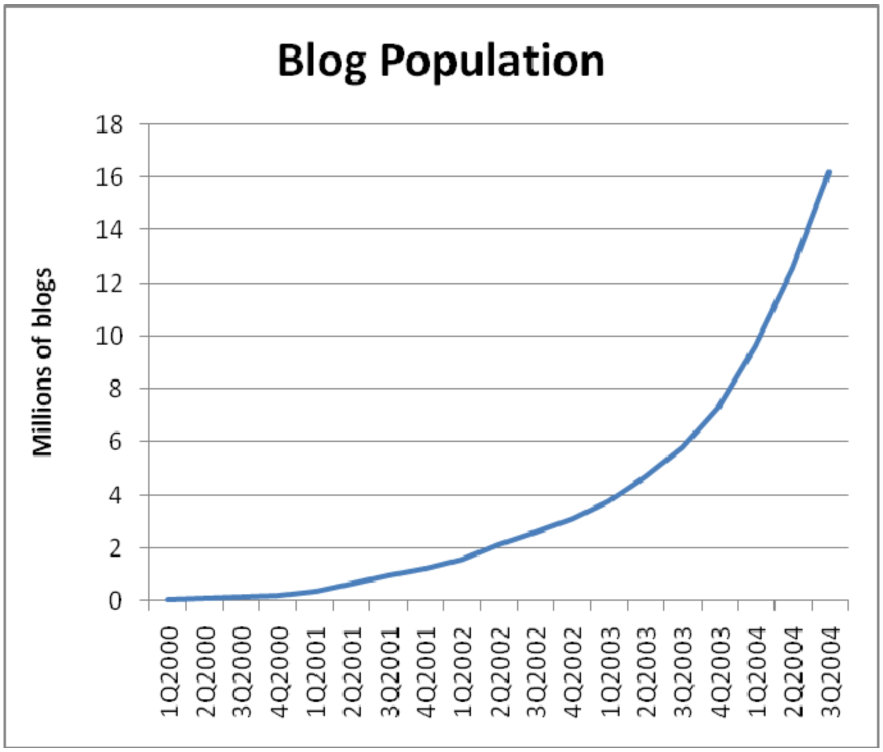
With all the problems, Williams would have liked to quit, but felt that doing so would endanger Odeo's survival. In May 2006, he told the team he did not believe in Odeo's podcasting product anymore and that he was going to seek a buyer for the company. He put an investment bank on 90-day retainer to try to attract a media giant, but at the end of the 90-day period, no buyer had been found. In June 2006, Williams started reducing the size of the team. Amidst this downsizing, the status-update tool was launched as a product in July 2006. After its debut, it attracted very few users and prominent bloggers questioned why Odeo was getting distracted with this new side-project. Williams considered it a highly speculative project, but remained confident in its prospects. In August 2006, Williams let Glass go, since he did not think he would be the right person to lead either Odeo or the status-update project in the future. However, he let Glass remain on Odeo's board.

Between January and August 2006, Odeo had spent another $500K, bringing the total capital spent to $2M. When a buyer could not be found, Williams had started getting messages from the board that the company would be shut down, unless there were "any more great ideas" in the pipeline. In September, Williams called a board meeting to discuss Odeo's future and, given the gravity of the situation, proposed that the meeting be held at CRV's offices. He wondered what he should recommend to the board. Williams had recently begun to feel that he could "believe in the company more only if I had complete control over it," but now that he had given up control, he felt stuck.

> Anything I do, I have to explain and justify it to the board. We're still like two guys in a garage who still have to brainstorm. But if you put a board in the garage with those two entrepreneurs so that the entrepreneur has to explain his hunches rather than just trying them out, it kills the creative part that can lead to something good. It's the board's job to question what I am doing, but I don't want to be required to explain myself. Having a board is killing our ability to try new things even if they're just hunches.

The excitement was gone, the fun had ended, and the creativity had been sucked out of him. Williams wrestled with his desire to move on to a new project versus his sense of wanting to fulfill his commitments. Should he remain involved with Odeo? He felt quite uncomfortable that he was now the "guy in charge" having to make such a big recommendation about the business.

Exhibit 1 Growth of Blog Population, 2000–2004



Source: Case author, based on data from http://www.perseus.com/blogsurvey/geyser.html.

Exhibit 2 Excerpts from Evan Williams' Blog "**Ten Rules for Web Startups**" (November 27, 2005)

#1: Be Narrow
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. … 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. .. 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.

#2: Be Different
…

#3: Be Casual
…If you want to hit the really big home runs, create services that fit in with—and, indeed, help—people's everyday lives without requiring lots of commitment or identity change. …

#4: Be Picky
… Startups are often too eager to accept people or ideas into their world. You can almost always afford to wait if something doesn't feel just right, and false negatives are usually better than false positives. One of Google's biggest strengths—and sources of frustration for outsiders—was their willingness to say no to opportunities, easy money, potential employees, and deals.

#5: Be User-Centric
…

#6: Be Self-Centered
Great products almost always come from someone scratching their own itch. Create something you want to exist in the world. Be a user of your own product. Hire people who are users of your product. Make it better based on your own desires. (But don't trick yourself into thinking you are your user, when it comes to usability.) …

#7: Be Greedy
It's always good to have options. One of the best ways to do that is to have income. … In other words, design something to charge for into your product and start taking money within 6 months (and do it with PayPal). Done right, charging money can actually accelerate growth, not impede it, because then you have something to fuel marketing costs with. More importantly, having money coming in the door puts you in a much more powerful position when it comes to your next round of funding or acquisition talks. In fact, consider whether you need to have a free version at all. …

#8: Be Tiny
It's standard web startup wisdom by now that with the substantially lower costs to starting something on the web, the difficulty of IPOs, and the willingness of the big guys to shell out for small teams doing innovative stuff, the most likely end game if you're successful is acquisition. Acquisitions are much easier if they're small. And small acquisitions are possible if valuations are kept low from the get go. …

#9: Be Agile
You know that old saw about a plane flying from California to Hawaii being off course 99% of the time—but constantly correcting? The same is true of successful startups—except they may start out heading toward Alaska. …

#10: Be Balanced
What is a startup without bleary-eyed, junk-food-fueled, balls-to-the-wall days and sleepless, caffeine-fueled, relationship-stressing nights? Answer?: A lot more enjoyable place to work….

#11 (bonus!): Be Wary
Overgeneralized lists of business "rules" are not to be taken too literally. There are exceptions to everything.

Source: Company document.