HARVARD | BUSINESS | SCHOOL

9-809-069

REV: NOVEMBER 19, 2012

NOAM WASSERMAN

LP MAURICE

Savage Beast (A)

In the wee hours of the morning, in 2003, Tim Westergren woke up in a cold sweat. It was 4 a.m. and he was not feeling well. He was unable to sleep and felt constrictions in his chest. This wasn't the first time he had woken up at this hour in recent months. He groaned, "I don't know how much longer I can go on. I wish I hadn't started this!" He couldn't help but think: Was his big idea actually executable? Was he really cut out to be an entrepreneur? Had he let down his friends? His team members?

For several months, things had not been going according to plan at Savage Beast, the Oakland-based startup he had cofounded in 2000. Back then, Tim had started on an entrepreneurial journey to build a recommendation tool that would let music fans discover artists they liked. Now, the euphoria of the early days was gone and Tim was facing a slew of very real problems with no apparent solutions. The company was rapidly approaching insolvency. Sales and outside funding were taking forever to materialize. After the startup's founders had gone months without paying themselves, they had decided to also significantly reduce employee salaries, which had resulted in the legal action that was now being taken against the company. Given the pressures, Savage Beast's founder-CEO had recently quit. For the thousandth time, Tim went over in his head the burn-rate numbers and recalculated how long Savage Beast could afford to stay in survival mode. He rolled over in his bed and tried to go back to sleep.

The Early Years

Born in Minnesota, Tim quickly learned to adapt to life on the road. His father, an ex-professional baseball player, traveled regularly to Europe, the Middle East, and North Africa as a salesman and corporate man for Pillsbury. The Westergren family lived for several years in each of Canada, France. and the U.K. Tim started taking piano lessons at age eight with a jazz teacher. He enjoyed the improvisational nature of jazz, especially because it meant not having his teacher constantly peering over his shoulder, forcing him to acquire proper sight-reading technique. Tim continued to wrestle with structure and authority throughout his early school years, and was an admittedly average student. However, he excelled at many sports and played soccer, hockey, tennis, and basketball at competitive levels.

Tim followed in the footsteps of his parents and entered college at Stanford University, where he continued to be heavily involved in sports at a varsity level. He began college as a pre-med student, but became disillusioned with organic chemistry because he viewed it as pure memorization and "ultimate structure." He quickly shifted his major to political science because it was the shortest

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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.

major in the school. During a music class, Tim got into an argument with his peers about critiquing interpretations of a Bach composition based on some pre-defined rules. "You don't correct music!" Tim protested. He also spent time studying musical acoustics at Stanford's Center for Computer Research, which introduced him to sound creation and the recording arts. He took all the available jazz courses and began spending more time practicing piano in Stanford's many practice rooms.

Since his youth, he had always been comfortable in the captain role on sports teams. Although he rarely sought leadership actively and described himself as a "reluctant leader," his peers often nominated him to such posts. During his freshman year, this began to extend to a non-sports organization. Tim's dorm building, which had a mix of "academic" students and athletes, had become unruly, even out-of-control, and the subject of many complaints. In one incident, an unidentified resident had shot a school administrator with a pellet gun from his dorm room window. Tim was asked by the residents of the house to take over and become president of the dorm, at least in part because he might be able to bridge the gap between the different groups of students. In one of his toughest sales jobs, Tim engaged deeply with his dorm-mates and eventually convinced the pellet-gun shooter to come forward and admit his guilt.

While at Stanford, Tim took an Organizational Decision Making class led by a famous social sciences scholar named Jim March. The class, whose syllabus included readings like *Don Quixote* and *Joan of Arc*, encouraged students to follow their beliefs and do things "because they were beautiful," not because of external rewards or social pressure. The class instilled in Tim a desire to "do what I wanted to do with my life." March's teachings also resonated with Tim's music orientation, because he had long rebelled against the classical theory of teaching music by imitation.

Nannies, Bands, and Aimee Mann

Despite his lack of discipline for studying, Tim graduated from Stanford at 22 years old, yet had "no idea at all" what he wanted do with the rest of his life. He spent the next 11 years in a hodgepodge of occupations. The summer after graduation, Tim was a camp counselor, before becoming a nanny for four years. In both cases, his passion for kids was central to his interest in the position, and Tim entertained thoughts of a career as an elementary school teacher. Through a connection with the mother of the children he was caring for, Tim transitioned to a job running minority admissions at Stanford, where he worked for three years. Throughout this time, however, he continued to play music relentlessly, using the freedom of his part-time work jobs to keep learning about music. He regularly played small gigs and in bands over these years, before finally deciding to commit more time to "doing what I wanted to do," which meant playing music as the main way for him to earn a living.

After a string of unsuccessful bands, Tim connected with a local singer/songwriter. The singer and Tim, along with a college classmate Tim had been playing with since graduation and three other musicians they met through mutual friends, formed a band called Yellowwood Junction. The band became successful on the local scene, filling 300-seat local venues and getting some attention from critics, although never achieving the greater prominence that Tim had sought. As Tim mentioned: "It was great artistically, but very discouraging professionally, driving a van all over the West Coast for years, crashing in friends' basements and never getting noticed. It was a lot of years with little to show for it." Building an audience for the band proved a complex challenge: "You have to invent it yourself because there's just no road map. Where should we go? How often should we play? What music should we play? Should we play covers or not? How do we recruit fans? How do we keep fans? There were probably some books out there, but most of the books were useless." The result for Tim was years of struggling to make ends meet.

Tim often felt like he was the glue holding the band together. He felt it was his duty to lead the group and to act as a uniting force in the band. For instance, when players would have an emotional "meltdown" after a show, he took it as his duty to support them. When disputes erupted between band members, he would act as the mediator. Despite the band's becoming a better combination musically over time, the politics and interpersonal conflicts led to an unhealthy situation that negated the love of music for Tim. He reflected:

> The band was great musically, but it was very difficult personally. As essentially the band's manager, I found myself spending a disproportionate amount of time repairing things. And if that's the cycle that you get into, you have to get out eventually. It's one thing if you patch a tire, and then the tire works. But if you constantly have to patch the tire, you've got to realize that something's wrong. It's not sustainable for you personally, let alone for the rest of the people. So I quit the band in 1995 and started looking for other avenues.

Tim started by writing jingles for commercials. He eventually progressed to composing musical scores for films. Several things about composing appealed to Tim. First, composing was a more predictable way of making money. After accumulating credit card debt throughout his 20s, Tim enjoyed having more financial stability and more control of his career path. Despite having been "unstrategic" about his music career, Tim was proficient at film scoring and quickly earned repeat business from film directors. Second, Tim enjoyed the process of creating music for the screen arts, in in particular, because it relied heavily on the interplay of computers and music instruments. He felt comfortable with mixing boards, editing software, and similar technologies, and enjoyed the challenge of synchronizing his musical creations with a moving picture. Finally, film scoring allowed for more musical variety, ranging from an orchestral theme to a country theme. "This appealed to my scattered attention and impatience, to my desire to not spend too much time on one thing," Tim recounted.

Through film composing, Tim also felt that he was using "a larger palette" of his skills than before. Tim sharpened two skills in particular—sales and managing budgets. First, in terms of sales, Tim was lucky to be introduced to a successful film composer in Los Angeles who allowed Tim to "hang out at the studio." Tim started learning quickly and winning jobs scoring films, despite his lack of experience. He recalled:

> I was good at getting business. I'd beat out composers who dwarfed me in terms of their repertoire and capabilities and who had been conducting symphonies for years. They were really impressive, but at the same time were all cookie-cutter. And over the course of a couple years, I started to get movies, and none of his guys were getting movies. They had their pedigree that they had been to Berklee or Julliard, and they had apprenticed under [legendary Hollywood film composer] Hans Zimmer, and they had all the ingredients on paper, but they couldn't sell.

Second, Tim developed budget-management skills, especially the ability to stretch every dollar farther with out-of-the-box thinking. For example, in one instance, Tim needed to allocate $20,000 to create a musical score. He realized that labor was relatively inexpensive, so he managed to hire a singing group of 30 people for $500 total to create a top-quality vocal track. His past experiences as a musician helped him quickly build a network of professional musicians, make strategic use of higher-paid unionized talent, and employ other talent to create musical scores. Tim forged a bond with musicians, many of whom were underpaid and underemployed despite being gifted.

Despite his success after four years, Tim noticed that his college friends were starting to settle down, and he began to feel that his composing gig was a "real grind," given that he had to spend 90%

of his time pitching business (requiring constant air travel) and only 10% actually writing music. He was still far from the group of A-list marquee composers who collected disproportionate amounts of the best and most lucrative opportunities. Tim was splitting his time between Los Angeles and San Francisco, and business was booming for almost everyone else in the San Francisco area. "In 1999, living in the Bay area was a very unusual environment, with all the startup companies happening. It was like a fever, with stories of rapid fortunes being made. It's all anybody talked about!"

One day, Tim came across a newspaper story about Aimee Mann, a singer who was having trouble convincing her record label to commit resources to her most recent album, despite the fact that her last two albums had sold over 200,000 copies and garnered widespread critical acclaim. Tim flashed back to his own band experiences and his early difficulties building a loyal audience: "Aimee Mann was emblematic of a world of musicians that I had been a part of, related to the challenge of finding an audience, knowing how many musicians have the talent but not the ability to have people find their music." He thought there had to be a way to let Mann's fans, and other music fans with similar taste, know that her new album was available; there had to be a way to alert people to new music that fit their tastes.

It was at this time that Tim started to connect the dots. He was convinced that there was a gap in the market for tools for independent musicians to professionally market themselves to music listeners. Existing websites were simply "content repositories" and could not help users discover new music they might like. Tim thought he had found a solution to the problem:

> It was an apple-on-the-head sort of a moment. I came up with the idea that I should use musical attributes to connect songs. I had gotten really accustomed to thinking of music tastes as a set of attributes; a film director would share songs with me that he liked, I would break down those songs into a set of attributes, and I had to go back to the studio and translate that into a composition with similar attributes. I wanted to "bottle" that process that was going on in my head into a software product that could come up with intelligent recommendations of other kinds of music that someone might like. And the idea wouldn't leave me alone, because I thought it was cool and innovative, and my mind was saying "do it, do it, do it."

However, Tim was reluctant to push his idea forward. He had just hit his 30s, which felt like "a new place" for him, and he yearned for stability and financial security. Although the film composing gig had its ups and downs, and was not yet a predictable revenue source, Tim thought that following his pie-in-the-sky idea for a music-discovery tool would probably be too risky financially.

At about this time, Tim had a conversation with Jon Kraft, an acquaintance from Stanford and now the husband of a close friend of Tim's wife. Tim knew that John had been the founder and CEO of an enterprise database startup backed by Sequoia, one of the leading venture capital firms in Silicon Valley, and that his startup had subsequently been sold to Informix. He also knew that Jon was a big music fan. After a few initial discussions, one of which resulted in a few scribbled notes about Tim's idea on the back of a napkin at an L.A. bar, Tim started to believe that his grand idea might be feasible. In December 1999, Tim and Jon started writing an initial business plan. With his wife's strong encouragement and Jon's involvement, Tim felt he could push forward and explore the idea further. The stars were finally lining up. At 32, Tim decided to become an entrepreneur.

Awakening the Savage Beast

Jon led the initial work on the business plan, since he had business experience and had been through the full cycle of entrepreneurship with his last startup. For Tim, the idea of starting a company was a "180-degree change" and required him to transform his frame of mind: "It was a complete mystery to me how you start a company. I still had not had a real job. I didn't even know the basics: When you go to work, how do you decide what to do that day?" But with Jon as a structuring force, the pair started working from a one-bedroom apartment in San Francisco, and Savage Beast Technologies was born in December 1999. Tim described the origin of the company's name: "Jon quoted a William Congreve line: 'Music has charms to sooth a savage breast.' It had been changed to make it more socially appropriate—'savage *beast*'—and we adopted it. We liked it and the edginess of it, plus it would help us stand out."

Another early decision they made jointly was to attract a strong product engineer who could build a prototype for their vision. Jon knew Will Glaser through a common friend. By all accounts, Will was a brilliant engineer and an impressive person. A triple major from Cornell in math, computer science, and physics, he was also an amateur musician and the son of a Nobel laureate in physics. Furthermore, Will had cofounded a startup with Tim Draper (later a well-known venture capitalist who founded the Draper Fisher VC firm), albeit to only mixed results. Will was busy working on consulting projects in the Valley when Jon suggested he join the team as a cofounder. When Will agreed to join, Jon joked to Tim that "our company just became worth $10 million" to illustrate his faith in Will's capabilities. Will started working on the early version of the product in January 2000. Tim compared the excitement of those early steps to writing his first songs with a new band.

Raising Seed Capital

While Will began developing the prototype, Tim and Jon made the rounds to start attracting funding. They pitched to investors a business-to-business model that would be a technology provider to the exploding online-music industry. Specifically, it would license a music-discovery engine for a monthly fee to online music retailers such as CD-Now, E-Music, and Amazon. The recommendation engine would be based on a music catalog, the Music Genome Project, where a small army of musicians would tag songs based on up to 400 attributes defined by Tim and the musicology team. The founders told investors that their tool would help people find music online, which in turn would lead to increased sales for e-commerce websites. Savage Beast would be the "Intel Inside" for online music retailers.

They received interest from an angel investor in Minneapolis who was the father of one of Jon's college friends. Jon and Tim's initial projections indicated that they might require up to $5M to get the project started, but as their discussions progressed, they revised the projections downwards to $1.5M. They were thrilled when the angel investor decided to invest $750K solely on the merits of the business plan, becoming the young startup's "anchor investor." Over the next few weeks, Tim and Jon presented their business to 15 other potential investors, without success. Both Sequoia and Draper Fisher, two venture capital firms with solid reputations, quickly passed, despite having deep personal ties to both Jon and Will. Then, Tim and Jon got a chance to pitch their plan to Garage.com, an early-stage venture firm headed by famous Valley figure Guy Kawasaki, a fellow Stanford alum and an Apple Fellow. About a half an hour into their pitch to Garage, Tim recalled: "Guy walked in. He spent 10 minutes and said, 'Let's do it. ' That was how the investment was made." Kawasaki agreed on the spot to invest $250K on the merits of the Savage Beast team and business plan. In addition, Garage posted all of its new investments into "Investor Heaven," a special section of Garage's website that distributed business plans to a larger pool of investors and which typically generated an immediate avalanche of new investment inquiries. However, Savage Beast's posting on Investor Heaven generated only a half-dozen calls and no actual investments. A few weeks later, in March 2000, the Internet bubble burst and venture capital quickly dried up across the Valley.

Finally, Tim and Jon turned to a number of small investors to make up the $500K difference needed to close the round. They persuaded their investors to accept liquidation-preference terms that were favorable to Savage Beast. In lieu of a formal board of directors, Savage Beast attracted a disparate collection of knowledgeable individuals to a board of advisors by promising the advisors pizza, refreshments, and Savage Beast stock. The board of advisors met one night per week to discuss various elements of the startup's strategy.

Defining Leadership Roles

From the start, the roles inside Savage Beast were clear. Jon was the "business guy" who was responsible for managing finances, business development, and administration (insurance, office space, etc.). Tim was the "idea guy" who could describe the vision of the music tool's capabilities, and Will was the "engineering guy" in charge of building the prototype. In addition to their respective functions, Jon and Tim were the default "pitch team" responsible for raising capital. When the founders formalized their roles, Jon became CEO, Will became CTO, and Tim CMO (chief music officer). Most of the company's decisions, except for HR issues, were made by unanimous 3–0 consensus. Even a 2-1 split on an issue would result in additional debate to convince the holdout. In terms of internal dynamics, the overall arrangement worked smoothly, except for some tension that was developing between Jon and Will over the direction of product development. Tim recalled:

> As a team, we embraced the idea that we could collectively figure out the best answer. If one person disagreed, we had to make sure we weren't missing something, to give that person's opinion a full airing. But when it was an issue someone else would understand better, I would look to him for it. If you don't recognize where your blind spots are, if you don't know what you don't know, it's difficult to solve. You need to have respect for the others' skills, and also self knowledge about your weaknesses, but some of us were stronger than others when it came to that.

When it came time to split the equity within the founding team, Tim sought advice from a lawyer friend who had helped structure early-stage companies, and was told: "For the extra equity you could get for having had the idea, you would be introducing sand under the saddle. Why introduce a hierarchy when you're a partnership?" They decided that all three founders had invested money and time in the venture and that they should split the equity evenly (33% each).

Hiring to Round Out the Team

With capital on the books and the three founders firmly established, Savage Beast started hiring additional staff to complete the team. Each founder hired for his domain: Will hired engineers, Jon hired office people, and Tim hired music people. All three founders preferred to hire friends and personal contacts, believing that doing so would produce employees who would take more responsibility, make more sacrifices, and be more proactive for the company. Tim clarified: "I'm a huge believer in hiring people you know. Friends will be the ones who go to the mat for you, do it out of loyalty, and would be in the boat with us, as opposed to just being employees. We were able to engender that sense of ownership in a very strong way." Will's approach was similar, but he also hired and mentored talented young engineers he didn't already know. Will hired Jeff Sterns, employee no. 1 and the chief software architect for the product, as well as a talented sophomore computer engineer from UC-Berkeley, and a visual designer who would be responsible for creating the first interfaces for the product. For employee no. 6, Tim hired a PhD in musicology from Stanford who was classically trained in composition theory, had experience in conducting, and was an experienced pianist who had previously played with the Steve Miller Band. By May 2000, the total team was composed of the three founders, nine engineers, six other full-timers, and a handful of part-time musician analysts. Needing more office space, Savage Beast moved to Oakland.

Tim believed that computers could not pick up musical nuances and moods precisely enough to achieve his vision, so music analysts would be needed to catalog music. During these months, Tim hired a dozen music analysts, mostly on a part-time basis. Those music analysts would work at most 4-5 hours per day analyzing music, since doing so was repetitive and intensive. When he was interviewing music analysts, he looked for excellent musicianship combined with a professional demeanor. Full-time hires were brought in at "below-market" salaries in exchange for equity packages. Tim and the team were looking for adventurers, for people who believed strongly in the idea and the upside: "People who were in for the cash would have been bad for us." Initially, the part-time music analysts were paid hourly and did not participate in the equity pool, but eventually they too received stock.

As the team grew, Tim, Jon, and Will started to hold daily meetings among themselves. The founders were together nearly 24/7 and collaborated to solve problems, often being the last ones to leave the office at night.

Thinking back to his rock band days, Tim was intrigued by the many parallels to Savage Beast:

> The first business idea is like the first set of songs. Hearing them, you're like, "Wow, this sounds good!" And a handful of people hear it and they go, "That's really a good sound." You have your first show, and people are excited about what you're doing. There's new material each rehearsal, everything is so fresh, and you're kind of discovering each other as musicians. All that kind of creation is just exploding. And it's all potential at that point. You can just dream away about what you can become.
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> And I think also when you're taking off, you have all this forward momentum. There's plenty of room for everybody to have their own space. There's no jealousy. It's like when a team starts to win, everybody doesn't have time to worry about who's getting the credit. You're so excited about winning. And once you've had a few good gigs, you say, "OK, we've had those, what's next? We can fill a club that fits 50 people. How do we go to the next level?" And so your aspirations adapt, you want something bigger and better, and it's harder to get to that. Each subsequent step takes a leap, requires more work, it's harder, challenging, and then you start to look around a little bit. Your mind begins to want more.
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> That starts to happen in a company, too. You're excited at the initial rush of entrepreneurial accomplishment, and then your first beta product comes out and you've got some customers, and each one gives you this big rush. And then it's supposed to be like a movie . . . happy ever-after: But in real life, that's when the hard part starts. You don't ride off into the sunset! You're into the execution phase—in the grind to get from Accomplishment A to Accomplishment B. Your aspirations adapt and the dynamics change because you're not so easily satisfied. The initial rush dies down, and it's down to just business.

The Downward Spiral

The product began to take shape. However, with the bursting of the Internet bubble, Tim and Jon did not think they would be able to raise additional capital immediately. At the current pace, Savage Beast was burning $150K of cash per month. At the end of 2000, this left about five months before the team would run out of cash.

Tim knew that he would need to get cash to stay afloat, either by raising capital from VCs or by closing sales to customers. In both cases, he would need a product that worked and could be deployed in the real world. On one side, venture capitalists in past pitches had often criticized Tim's idea as lacking scalability. Tim feared that these investors would not fund him now if he could not prove that he could build a deep catalog of music with far more than several thousand songs. During past demos to investors, Tim had needed to strategically "guide" them to request a song for which he knew that the engine would return great matches, usually by suggesting half a dozen bands and emphasizing one in particular. However, doing so would no longer be sufficient. Tim reflected: "Investors are looking for reasons to say no. When you do a pitch, if someone has any kind of foundational doubt about your business, you won't get over the hump. To get them off the scalability objection, you're guilty until proven innocent. You have 15 minutes to make it happen until their mind starts straying to the next pitch that's waiting for them."

On the other side, customers like CD-Now or Amazon would have no use for a solution that did not reference a large library of content or failed to help users discover a wide range of music. Tim noted: "The size of our database was critical—we needed a large database, you couldn't fake that. We had to have coverage. Doing it slower, we would not have survived. We had to ramp up fast enough that we could sell something." Over the next nine months following the end of 2000, Savage Beast hired over 30 music analysts to speed up the labor-intensive endeavor of rating songs. They started by cataloguing the songs on the Billboard charts over the last few decades, gradually working toward music by more independent artists. The number of analysts swelled to about 40 at its peak. As the work progressed, the founders began providing better incentives and tighter controls for analysts to be productive.

Despite their best efforts, it did not look like Savage Beast would be able to secure additional funding any time soon. Savage Beast received a string of eviction notices because the company was routinely behind on the monthly rent. The founders stopped taking salaries. Tim began charging up—and maxing out—almost a dozen of his personal credit cards in order to keep Savage Beast alive. When Savage Beast's bank account dropped to $0, the founders put in their personal money as bridge loans; Will and Jon put in $100K each and Tim put in $50K, which was the remainder of his personal savings. Most of these funds went to pay employee salaries.

Tim began receiving increasingly concerned calls from the company's many small first-round angel investors, including family and friends. Many of those original investments had been made with money earned from the dot-com boom, and at the time of the investments, the angels were giving Savage Beast only a small fraction of their total net worth. But when the angels' other capital gains evaporated, their Savage Beast investments suddenly became a much larger portion of their net worth. These investors would call Tim and ask, "What's happening? What are its chances? That money really matters to me." Tim felt a deep sense of obligation to these early investors. Tim also knew that early investors could suffer in a future round of capital, since new investors could impose dilution and unfavorable terms on existing equity holders. "It's the 'The Last Money Calls the Shots' principle," said Tim.

Deferring Salaries

With their personal funds dwindling and seeing no other alternative, the founders decided to cut employee salaries slightly to make ends meet. Then, the founders asked their staff to voluntarily take only 75% of their salaries. Tim spoke directly to the staff at an all-hands meeting to announce the news. It was a tough move, especially since he had just recently persuaded many of these same employees to join the startup with reduced salaries and a promise of upside. He said to them: "We believe we can get there, but we need as long a rope as we can get. To make the money last longer, we want to have people take a voluntary reduction in salary, and we'll pay you back when we get the money. It's completely voluntary, don't feel obligated. If you have any questions you want to discuss privately, come to us." In terms of the specific deal offered to the employees, Tim recalled:

> We put it on paper that "We'll pay you back when we raise at least $3M." For every dollar they deferred, we gave them between 3 and 5 shares. The salary was still owed, but they got a bonus, a stock grant for deferring it. $3M was about how much we thought we needed to be able to keep going and to pay back the deferrals. There was some attrition, naturally, but most employees stuck around.

Soon, in an emotional turn of events, the founders were forced to institute mandatory 50%–75% deferrals across the board. The pay cuts created an unhealthy "pressure-cooker" work environment. Employees who chose to leave were concerned they would never see their deferred salary again. As the months wore on, employees who chose to stay on board felt like they were being "duped" more and more each day that their salary was deferred. One disgruntled employee even attempted to rally others to formally contest the leadership of Savage Beast, unsuccessfully. Some full-time employees had deferred up to $85K at that point, while music analysts had deferred as much as $30K. The dynamics of the company changed significantly. Tim remembered: "The difference was the degree of scrutiny that people brought to decisions. When things are doing well, you make lots of decisions and people soldier on, do their job, and just leave the decisions to the management team. When people are owed money, they start to second guess, and the questions they ask are a lot more pointed—they question if you know what you're doing." Once again, Tim drew on his band and composing experiences:

> From my music career, I had developed a chest of armor with regard to dealing with extended adversity. You develop confidence that you can eventually get there. Extended times of what feels like futility—you can feel like you're standing in place or just treading water—and then something just falls into your lap. Just because it's taken a while, you don't lose hope. You have to know in your heart that you're making progress, even though there are no real markers of progress in music. You celebrate for yourself your abilities and the quality of what you're doing, but you have to keep going and believing you'll get your chance.

Although the founders had been personally funding the partial salaries of employees with their own money, Tim and his cofounders were determined to show a calm façade in order to project confidence to employees, so they did not tell their employees about their use of personal money. Still, the salary-deferral plan created growing tension between the founders and their employees. The founders felt a gap forming in the traditionally flat structure. The management challenge deepened. Tim explained: "It meant getting really close to people, convincing them to be loyal to you. It meant being really honest with them, respecting their fears and giving them full info, but convincing them to work in spite of all of this. You also have to convince them that you can convince the *other* people who are needed to keep the business going." Another factor preventing defections was the general lack of opportunity in the Valley's depressed post-bubble technology industry.

Despite being owed $85K in back salary, Jeff (employee no. 1 and the chief software architect) helped bridge the emerging divide between management and employees. Jeff was trusted and well liked, but more importantly, the other employees perceived him as "independent" since he was not a founder and since he routinely asked tough questions to Tim, Will, and Jon at all-hands meetings. Jeff was able to become the "voice of moderation" among employees. His support for the founders helped mitigate the feeling among some employees that "Tim and Will want to kill me with work because they'll make a killing later. They'll get the glory and the equity, I'll get nothing!" Regarding

Jeff's role, Tim commented: "It's one thing when founders do something, but having an employee do it is even more powerful. More than founder vs. non-founder, it's large equity holder vs. small equity holder. That's where the rubber meets the road. It's a very loaded request to make to ask someone to sacrifice so much when in a good outcome, they won't get nearly as much."

Losing a Cofounder

With salary disputes in the foreground, tension was also building within the founding team. The clashes between Jon and Will accelerated at the same time that Tim was gaining confidence in his business skills. Although Jon had a tremendous amount of respect for Will, both founders clashed on a regular basis, driven mostly by a combination of strong-willed personalities and ambiguity in their increasingly overlapping roles. Tim tried to mediate these disputes and to minimize the distracting impact on the employees at this critical juncture. Although the clashes between Will and Jon were creating instability at the worst time, Will had long been a key contributor and "a rock," playing a large role in keeping the mission-critical engineering team together. Will had hired the technical team, had overseen product development, had helped convince individual team members to stay on board with reduced salaries, had put in long hours, and had been first to sacrifice financially.

On Tim's side, he had gained confidence in his ability to "sell" the Savage Beast story to potential customers and investors. In recent months, convinced that he had found a role where he could improve Savage Beast's effectiveness, and encouraged to do so by his wife, Tim had gradually taken over many of Jon's business-development and fundraising responsibilities. Whereas previously Jon would cover business issues and Tim tagged along as the sidekick to talk about the product concept, Tim had learned a lot from watching Jon over the years. Now, Tim felt more comfortable discussing business issues in client and investor presentations, and he started jumping into the discussion more frequently to clarify points and answer VC questions.

In addition to these internal pressures, Jon also faced pressures outside the company. Married with a young baby at home, Jon's family was still living in Los Angeles. He had been commuting from the Bay Area to Los Angeles to see his family on the weekends, an arrangement that had become unsustainable over time. Despite the challenges introduced by this arrangement, Jon had felt a deep level of commitment to Savage Beast's investors, particularly the Minneapolis angel who was the father of one of his college friends, which had led Jon to persevere. However, in mid-2002, Jon decided to leave Savage Beast. Jon's decision to leave, while extremely difficult on a personal level, made sense in the context of the evolving roles and his family situation.

Tim's reaction to Jon's leaving was mixed. Jon had been an effective leader during the early days, while simultaneously teaching Tim the nuts and bolts of management. By now, Tim considered Jon a close and personal friend. However, Tim believed that at this point in the company's life, Savage Beast needed to be streamlined.

When Jon left in March 2002, Tim became the lead communicator of both product and business issues in investor meetings. He found himself spending more than half of his time pitching the company. And with Savage Beast's declining fortunes, it became an increasingly difficult process.

Realigning Strategy

With Jon's departure, Tim was now responsible for steering Savage Beast in a clear strategic direction. All eyes were on him. He especially needed to decide how to allocate his time, given the startup's limited resources and its current situation. To Tim, there were three major options.

First, by putting on his "pitchman" hat, Tim could dedicate most of his time to raising additional financing to get Savage Beast back on its feet and pushing strongly toward Tim's product vision. If he did this, he needed to decide whether to focus on raising a smaller bridge "lifeline" round to keep the company alive, or on raising a larger Series B round to assure its future. Given his inability to raise money so far, however, how much should he try to raise while Savage Beast was still under duress, and should he change how he was positioning the company as an investment to VCs?

Second, Tim could seek organic growth and focus on chasing paying customers, which would help prove the business model. On the customer front, Savage Beast had secured BarnesandNoble.com and TowerRecords.com as two beachhead customers in early 2002. Despite these marquee names, they were very small accounts that generated little revenue for Savage Beast. However, the company tried to leverage the credibility of those paying customers to attract the attention of two bigger fish: AOL and Best Buy. On the AOL side, Savage Beast wanted to power the listening recommendations on AOL's online music sites. Such an AOL deal might be worth $500K and would use Savage Beast's recommendation as is, but the team had already been pursuing AOL for 12 months with no apparent progress.

On the other hand, to capture the Best Buy opportunity, Savage Beast would be required to modify its product and its business model. Although its current product was targeted at online music retailers such as Amazon and CD-Now, Savage Beast would need to shift to an "offline kiosk model" to attract Best Buy. These in-store kiosks would help listeners discover new music through a screen interface, on which would be clearly marked "Powered by Savage Beast." Through a contact, Tim had learned that a Best Buy deal would also probably be worth $500K in revenues, and Tim hoped that this deal would provide broader visibility for Savage Beast. However, Tim worried that his resources were already stretched too thin, and that targeting Best Buy might be a bad move in the longer run given that there might not be sufficient depth in the offline market to warrant an investment in developing a kiosk. Should he pursue AOL with its existing product, Best Buy with a new "kiosk" product, or both?

If Tim decided to pursue this customer-focused strategy, he would be continually wearing his "salesman" hat as he chased customer after customer to keep the company growing. Savage Beast would shift to a "sustainable growth model" servicing customers and bringing in a consistent stream of cash to pay salaries and expenses, but might need to scale back Tim's grand and unified product-development ambitions.

Third, Tim could try to find a potential suitor for Savage Beast. AOL and Real Networks had already shown mild interest. A number of industry players, both online and offline music retailers, might also see a strategic fit for Savage Beast's music discovery and recommendation tool. The ability to quickly find new artists and records that customers might enjoy had the potential to accelerate sales in both online and offline channels. Online players included music services such as MP3.com, eMusic, Listen.com, Napster, as well as large portal sites like Amazon, Yahoo, MSN and MySpace. Offline players included big-box retailers like Wal-Mart, Borders, Barnes & Noble and Circuit City and record companies such as Sony, Universal, EMI, BMG and Warner, who might also be interested in buying the technology to power their websites and online efforts. If Tim were indeed able to find a serious suitor, would exiting now maximize value for investors and employees?

Quit or Persist

Commuting to work from San Francisco to Oakland after his early-morning insomnia, Tim wondered how many more sleepless nights he could endure. The company had now been in some state of salary deferral for almost three years. The words of his college professor came to mind, and he realized that he was no longer "doing what I wanted to do with my life." He continued: "From the very beginning, I have questioned almost constantly whether this idea will deliver on its promise. Like me, I think most startup entrepreneurs climb a 'wall of worry' every day, and if they don't, they should!"

In June 2002, despite Jon's recent departure, Tim managed to close a $650,000 bridge round led by a private investment firm that usually provided mezzanine and equity capital to profitable, midsized companies. This infusion of cash bought the company extra time and allowed it to begin paying some partial salaries to those employees most in need. However, a real round of financing seemed as far away as it had ever been.

In the pressure cooker that Savage Beast had become, Tim began to wonder if he was really cut out to be a technology entrepreneur. He was also starting to think that any more money invested in Savage Beast would be a matter of throwing good money after bad. At the very least, even if they could raise a new round, $1M of it would have to go to paying deferred salaries. And if they couldn't raise new capital, his personal financial situation and the pressure cooker within Savage Beast would only get worse, if that were even possible. However, family, friends, employees, and his fellow founders were all looking to him to get the company through its tough times. He felt responsible—handcuffed, almost: "I've brought everyone into it and can't turn back. My persistence might look like a virtue, but I have to put myself through this because of all the people I've involved who I have ties to."

The new potential investors demanded very harsh terms in order to close the next round. For instance, Tim would have to convince his early investors to waive their warrant rights, creating substantial paper losses for them, and the team's equity stakes would be reduced to nearly zero. Tim was delicately balancing a lot of sticky issues, including this one, as he tried to close the round they needed so desperately. At this point, though, this balance—and the relationships Tim had worked hard to build with the potential investors—was threatened by strong disagreements between Will and Tim about the financing strategy and terms. Tim explained: "If you're not the one raising money, it's hard to understand the dynamics. From afar, you have no idea how hard it is to raise money, how delicate things are. I had very carefully built momentum, had manufactured leverage where we had none. The delicacy of our financial condition was beyond measure."

As the bridge money was close to running out and he was furiously pursuing new investors, Tim received word that five lawsuits had been filed by past employees of Savage Beast. The suits claimed that Savage Beast had violated California employment laws by deferring employee salaries, and demanded back-salary and penalties. Tim received legal advice that indicated that there was a lot of validity to the claims, and that the salary-deferral waiver that had been signed by those employees was not a valid agreement. Savage Beast still owed employees well over $1M in salaries, was facing these five suits in Oakland courts that were known for being labor-friendly, and had the potential to face a class action on behalf of the remaining 45 past employees.

Both Savage Beast and Tim were barely treading water. Tim wondered if, personally, this was the time to cut his losses or if he should re-double his efforts. He thought to himself, "Should I quit?"