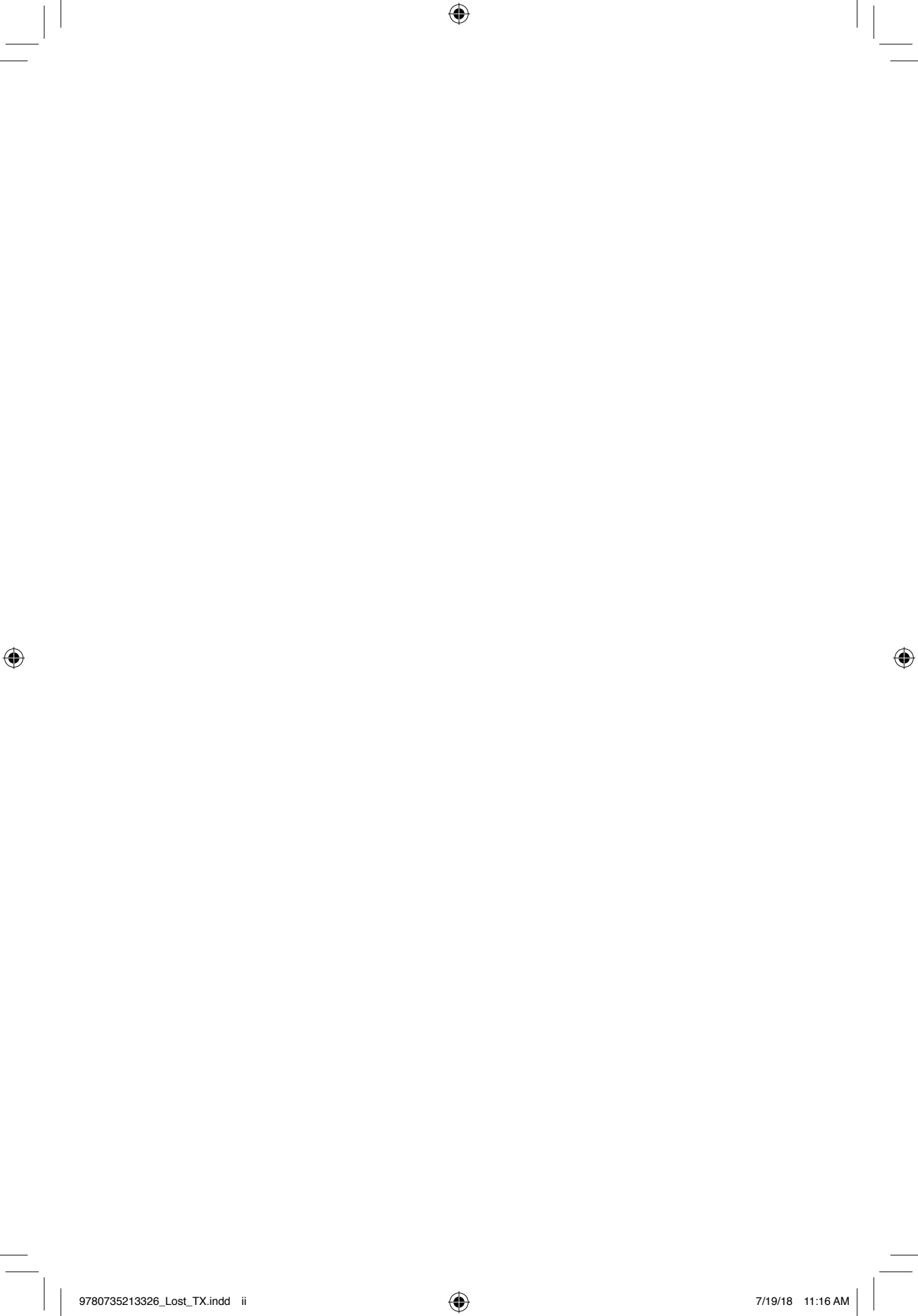


LOST AND FOUNDER







LOST AND FOUNDER

A PAINFULLY HONEST FIELD GUIDE
TO THE STARTUP WORLD

Rand Fishkin

PORTFOLIO/PENGUIN



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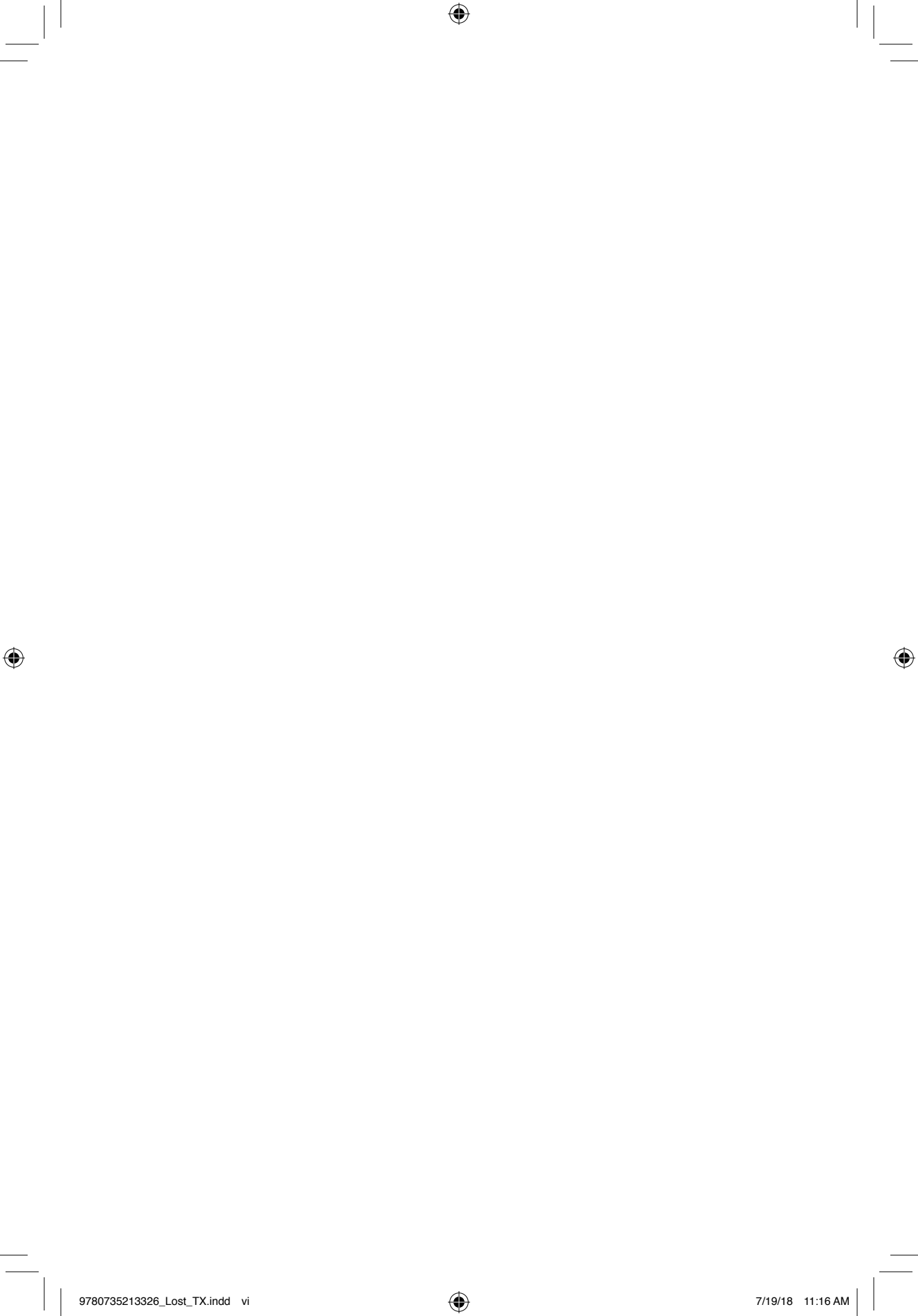
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*To my grandparents Pauline & Seymour,
my mom, Gillian, and my wife, Geraldine.
Your love and support were my first investors.*



CONTENTS

INTRODUCTION	
THE STARTUP CHEAT CODE	1
CHAPTER 1	
THE TRUTH SHALL SET YOU FREE (FROM A LOT OF \$#*% STORMS)	13
CHAPTER 2	
WHY THE STARTUP WORLD HATES ON SERVICES (AND WHY YOU SHOULDN'T)	29
CHAPTER 3	
GREAT FOUNDERS DON'T DO WHAT THEY LOVE; THEY ENABLE A VISION	49
CHAPTER 4	
BEWARE THE PIVOT	61
CHAPTER 5	
STARTUPS CARRY THEIR FOUNDERS' BAGGAGE	69
CHAPTER 6	
DON'T RAISE MONEY FOR THE WRONG REASONS OR FROM THE WRONG PEOPLE	89
	vii

CONTENTS

CHAPTER 7	
SO YOU'VE DECIDED TO ASK COMPLETE STRANGERS FOR MILLIONS OF DOLLARS	101
CHAPTER 8	
FOUNDING A TOP 5 PERCENT STARTUP MAY NOT MAKE YOU RICH	111
CHAPTER 9	
SCALABLE MARKETING FLYWHEELS > GROWTH HACKS	121
CHAPTER 10	
REAL VALUES DON'T HELP YOU MAKE MONEY (IN THE SHORT TERM)	139
CHAPTER 11	
LIVING THE LIVES OF YOUR CUSTOMERS AND THEIR INFLUENCERS IS A STARTUP CHEAT CODE	163
CHAPTER 12	
GREAT PRODUCTS ARE RARELY "MINIMALLY VIABLE"	177
CHAPTER 13	
SHOULD YOU SELL YOUR STARTUP EARLY? YES, PROBABLY	193
CHAPTER 14	
IF MANAGEMENT IS THE ONLY WAY UP, WE'RE ALL F'D	207
CHAPTER 15	
VULNERABILITY ≠ WEAKNESS	219
CHAPTER 16	
SELF-AWARENESS IS A SUPERPOWER	233
CHAPTER 17	
FOCUS	247
AFTERWORD	
CHEAT CODES FOR NEXT TIME	281
 ACKNOWLEDGMENTS	 293
NOTES	299
INDEX	305

INTRODUCTION

THE STARTUP CHEAT CODE

Universal truths we learn by age twelve:

1. Never feed a mogwai after midnight.
2. Breakfast cereal DOES taste better if you substitute chocolate milk.
3. (And most relevant to our story . . .) The first time you play a new video game, you'll suck.

The controls are foreign. The game mechanics are inscrutable. Make it through level one, and level two will undoubtedly get you. But that second time around, you'll do better. And if you play for a few hours or a few days, you'll start to feel the flow—eventually, you're unstoppable. In the zone. A juggernaut of win. **THE RULER OF YOUR CASTLE** (though in this case, the castle is probably your parents' basement). But even if it's your first time playing, there's a way to jump ahead of the learning curve: cheat codes.

Starting a business works this same way. The first time you build

LOST AND FOUNDER

a company, it's scary as hell. Accounting? Payroll? Customer acquisition? Recruiting? Hiring? Fundraising? People management? No wonder first-time founders, like first-time gamers, die on the first level. Customers won't pay. Employees quit. Your investors make your COO your boss, then fire you. You will very much want to retreat into a basement and play video games for several long hours, possibly years.

The good news: there's a cheat code here, too.

In my third year as a first-time, what-the-hell-am-I-doing CEO, I got an email from a Seattle entrepreneur I deeply respected, inviting me to join a local group of startup movers and shakers at a local bar. When I arrived, I was introduced to a handful of people whose names I knew from the startup news websites and blogs I followed. These were founders and technologists I'd read about but never thought I'd meet—basically the coolest nerds in my universe. I played it cool. We drank. We talked. Well, they mostly talked; I mostly listened.

What I heard shattered my long-held illusions about startup life.

These men and women were scared, just like me. They were uncertain. They struggled, they felt fear. They needed help. Those who'd been through an experience gave advice and offered assistance to the first-timers. The longer we stayed and the more we drank, the more vulnerability emerged. No one pretended to have all the answers, but when someone had insight, they opened up.

When I got home, I tipsily typed an email to myself with some of what we'd talked about. I stared at it, trying to figure out if it was possible to avoid the pitfalls, a way to not suck the first time around.

Here are some of the more tactical takeaways I learned that night (apart from four Tom Collinses are one too many):

- Raising prices for your product every year or two and grandfathering in existing customers is a great way to increase loyalty and

grow your profit margins. (We did this several times over the next few years; it worked like a charm.)

- If you want to raise money from an investor, ask for help with your business. If you want an investor to help with your business, ask for money. (From later experiences I can verify that, yes, this totally works.)
- Many voting rights for funded companies have some provision that gives special consideration to “preferred shareholders.” Usually, these are the investors, but smart entrepreneurs know this and thus will buy a small amount of preferred shares in their own companies during a funding round so they will also share these rights.
- The Hacker News website (<https://news.ycombinator.com>) has an algorithm that filters out high quantities of votes from a single geography. So if you want to ask your friends to help up-vote something to page 1, make sure they’re not all in the same city. (Also, make friends in other cities.)
- Recruiting for software engineers is best done directly by founders. Find people who look interesting, uncover a connection you have to them in your network, get an intro, meet for coffee, get them excited about your company, and if they’re not interested, ask who they know who might be. Not one of the group’s members had success with external recruiters (at least, not in the early stages). Oh, and Craigslist still works way better than most of the other job sites, at least in Seattle.

How did these entrepreneurs acquire this knowledge? How did they have answers to questions I didn’t even know I should be asking?

The answer: they had startup cheat codes. (Sadly, it’s not as easy as the Konami code.)

The hard way to earn those codes is experience. You struggle

LOST AND FOUNDER

through a problem, follow conventional wisdom until you prove it's not working, make all sorts of mistakes, and then, eventually, stumble onto a solution that succeeds. It's agonizing, but sometimes it's the only path available.

The cheat is to have connections to people—mentors, advisers, friends, family, partners, employees—who've been through the problems you're facing before and can give you a map out of the woods and onto a path that works. You need to be willing to listen. You need a network whose problems and solutions match. But when you can short-circuit the painful quagmire of stumbling through an issue alone, it's gold.

That's one of the biggest things I've learned about startups: *it's dangerous to go alone*. You want people around you who've been through this before and are willing to openly share their experiences.

That's why second- and third-time entrepreneurs have such better track records than their first-time peers. And why investors are so much more likely to back a founder who's been through the game at least once before.

This book is one really long cheat code. I wrote it so that you don't have to repeat the mistakes I've made. So you can leapfrog the wasted months, the wasted cash, and the heartache too many of us endure. So that if you don't live in a geography with lots of other startup founders, you can still get the inside scoop. To unlock these cheat codes, you'll need context, stories, data, and thorough explanations. And I won't share just the tactical tips and tricks; I have to include the ugly, heartbreaking realities, too. If I held back out of fear or a desire to make myself or my company look better than it is, I'd be failing you. That's why this book is so transparent about the things founders don't normally discuss. Money. Depression. Layoffs. Failure.

I'll tell you how I turned down a life-changing acquisition and

how I regret it to this day (hell, I'll even show you the email). I'll walk through how we raised money and explore why it's so rarely the right move (and why it may even have been wrong for us). And I'll show why so much of classic, Silicon Valley–startup advice is flat-out wrong, mangled by survivorship bias, and only applicable to a tiny subset of companies and founders (even though it's dispensed to everyone with one-size-fits-all uniformity).

The next seventeen chapters are here to dismantle the shady logic born from the oversimplified, opaque stories of what startup success looks like. Instead, I'll share real stories, show real numbers, and offer real solutions.

How the Valley Fooled Us All

The aggrandized archetype of the “startup founder” is powerful and pervasive. These entrepreneurs pull themselves up from nothing and create jobs, wealth, and world-changing tech despite their meager beginnings.

It's also total bullshit.

University of California–Berkeley economists analyzed shared traits of entrepreneurs and found that, in reality, most come from backgrounds of wealth and privilege. (I complain about having no friends as a kid, but let's be clear: I had a friggin' Nintendo game console. In 1989. That's basically the child equivalent of a free coke hookup in the '80s!)

But anyone can succeed in the gold rush of tech startups, right? That's the whole point, isn't it?

Nope. Sorry. More BS. More than 75 percent of early-stage technology companies fail to return their investors' capital (nevermind make a profit), according to a Harvard Business School cohort analysis. If we

LOST AND FOUNDER

look at only tech-centric, venture-backed startups, it's more than 90 percent! Even surviving the first few years was no guarantee of success—a full 50 percent of the companies still alive in year 4 went under.

Founders are usually young, just out of school, yeah? Nope. The Kaufman Foundation found that most founders are between thirty-five and forty-four years old, not the twentysomething college drop-outs epitomized by popular culture.

If this data has you questioning the way you think about startups . . . good. It should.

I hate these mythological stories for a personal reason: I spent a decade pursuing this precise, vaunted myth of startup success and went off the rails.

As a white, Jew(ish)* American dude, I've enjoyed a life of relative wealth and privilege compared to 99 percent of the world. But I wasn't fated to or groomed to become a tech entrepreneur. I'm not a programmer. I didn't go to an Ivy League school or a Computer Science program. My company wasn't founded in Silicon Valley. When I started, I didn't know a single venture capitalist or any entrepreneurs who'd raised money. I was never recruited into the startup or technology world.

Maybe the only correlation I've got with the vaunted startup-founder myth is that I dropped out of college . . . mostly because I had a fight with my dad, and he stopped paying my tuition. Does that count?

Suffice it to say, I'm a pretty unlikely tech founder/CEO. Yet somehow, remarkably, accidentally, that's exactly what I became.

In 2001, I started working with my mom, Gillian, designing web-

*I'm ethnically Jewish (97 percent Ashkenazi, according to 23andMe), but not religious. Bring on the bacon.

sites for small businesses in the shadow of Microsoft's suburban Seattle-area campus. Side note: "Mom & Son Consultancy" is probably the least likely startup combination in this field; it raised plenty of eyebrows along the way (after a while, I took to calling her by her first name in work contexts—that helped). The dot-com bust and my sorely lacking business acumen meant we struggled for years, but eventually, after trial and error, missteps and heartache, tragedy and triumph, I found myself CEO of a burgeoning software company, complete with investors, employees, customers, and write-ups in *TechCrunch*.

By 2017, my company, Moz, was a \$45 million/year venture-backed B2B software provider, creating products for professionals who help their clients or teams with search engine optimization (SEO). In layman's terms, we make software for marketers. They use our tools to help websites rank well in Google's search engine, and as Google became one of the world's richest, most influential companies, our software rose to high demand.

Moz is neither an overnight, billion-dollar success story nor a tragic tale of failure. The technology and business press tend to cover companies on one side or the other of this pendulum, but it's my belief that, for the majority of entrepreneurs and teams, there's a great deal to be learned from the highs and lows of a more middle-of-the-road startup life cycle. Outliers like Facebook (on the wildly successful end of the spectrum) or Secret* (on the opposite end) make for terrifically interesting shock pieces, but neither is willing to disclose enough or, perhaps, be self-reflective enough to provide great insight into the

*The social networking website Secret famously raised \$100 million in funding after six months of stealth operations, of which the founders pocketed \$25 million privately. A year later, the company shut down after achieving zero traction with a nonexistent business model.

LOST AND FOUNDER

subjects that bring value to those who'd follow in their footsteps (or who try to avoid doing so).

This book intends to do exactly that by tackling tough subjects through anecdotes, stats, and harsh self-inquiry. Admittedly, my perspective is biased by my experiences, my background, and my unique view of the startup world as an employee, a CEO, and a board member. I try to be as up front as possible about all of that. I believe that to get the most from any singular experience, you need to know the author's journey and position. Given that perspective (via this introduction), you can take my biases into account as we embark on this examination of startups and entrepreneurship.

Moz is different from many of the most written-about tech startups in a few ways I should mention:

- As a B2B company, our product is almost always marketed to and purchased by companies and consultants rather than directly by consumers. This is worth noting because the most visible and written-about tech companies are usually consumer-facing, either in software (like Facebook or Google) or physical products or services (like Tesla or Airbnb).
- Our products are self-service, rather than sales driven. This means anyone can, at any time, visit our website, enter their credit card, and get full access to our software without ever talking to or interacting with a person on our team (because, let's be real: phone calls are terrifying). This approach has been historically uncommon in B2B, primarily because sales were viewed as critical to forming relationships between businesses and a way to push through large, expensive, ongoing contracts. Today, with the rise of web-enabled delivery and a generation of business owners/professionals more comfortable with a hands-off, low-pressure sales approach, self-

THE STARTUP CHEAT CODE

service B2B sales funnels are slowly on the rise (as evidenced by companies like Slack, SurveyMonkey, Dropbox, or MailChimp).

- Moz is creating and serving a new market, rather than disrupting an existing one. SEO software has been around since only the mid-2000s. We were one of the first providers (starting in 2007) to offer it via a web subscription (versus downloadable, desktop software), and one of the largest in our field (both by revenue and by customers). As of this writing, we aren't aware of any direct competitors who are many multiples of our size, any whose stock is publicly traded, or any who has massively more customers or revenue.

But though we have some outlying attributes, Moz does have many of the other features stereotypical to tech startups:

- We've raised funding from traditional venture capital firms (as of 2017, \$29.1 million across three rounds).
- Nearly all of our revenue comes from software.
- We operate with relatively high gross margins (75 percent and above).
- We employ very expensive, talented, highly-in-demand engineers, product designers, marketers, and customer service folks. The average Moz salary is more than \$100,000/year, and with benefits and taxes, a new employee costs us about \$145,000/year. More than 70 percent of our costs come from the salaries and expenses of people on the team.
- We've fluctuated over the years from burning cash in attempts to grow faster versus staying profitable in order to limit risk (e.g., from 2014 to 2016 we consumed almost \$20 million; as of 2017 we were profitable again with more than \$7 million in the bank).

LOST AND FOUNDER

Since our founding in 2004, we've had some wild ups and downs. We've survived boom and bust cycles, raising and spending venture capital, making successful acquisitions and not-so-successful ones, hiring sprees and layoffs, new product launches and product retirements, and big changes in strategy.









In 2014, after a particularly brutal period, I stepped aside as CEO and took a role as an individual contributor. As of this writing, I'm chairman of Moz's board of directors and an adviser to several of our product and marketing teams. I speak at more than thirty conferences a year and spend about 25 percent of my days on the road, helping folks around the world gain a better understanding of how search engines and web-marketing channels work. I still walk to the office from the apartment I share with my wife, Geraldine, run tests that Google wishes I wouldn't, try to be a force for transparency both internally and externally at Moz, and do my best not to beat myself up for the mistakes of the past. (That last endeavor is the hardest.)

When I entered the startup world, I was predisposed to certain ideas about what it meant to be CEO of a company like ours—early stage, technology focused, rapid-growth seeking, and successful only if we earned big returns for our shareholders and investors. We all read the coverage of other startups and watch the TV shows and news that purport to have windows into this reality. But years into my own journey, I had a head-shaking, wait-a-minute-this-can't-be-right awakening. The media, the hype, the legends of how Silicon Valley startups work are just a carefully crafted model home. They're set pieces, painted by interested parties for their own benefits, built to hide embarrassing flaws. None of it is real.

You don't have to live, work, or start a company blinded, the way I was, to reality.

THE STARTUP CHEAT CODE

That's why this book exists, and that's why it's organized into tactical chapters, each unearthing the sometimes strange, hard-to-comprehend, or rarely-talked-about truths of the startup world. These chapters start with the common mythos epitomized by a famous quote from a notable name in the technology world. You'll see the words of famous investors, wildly successful entrepreneurs, and esteemed authors and, piece by piece, see their falsehoods and false impressions dismantled, first with stories of my own, and later through data, research, and analysis. Each chapter ends with ideas or tactics that have helped me (and sometimes others, too) overcome the problems within. I don't pretend to have all the answers. Not for a second. But I often have tactics that helped me out of a bind, and if they can help you, I'd kick myself for holding back.

So, get your controller. Insert your cartridge. It's      
  **BA** **SELECT** and . . . let's get started.



CHAPTER 1

THE TRUTH SHALL SET YOU FREE (FROM A LOT OF \$#*% STORMS)

You've got an interesting business, but we don't believe it will ever get past a few million dollars in revenue.

—Anonymous Investor I Pitched in 2009

In 2005, my coworker Matt and I were working in a run-down, shared office space above a noisy movie theater in Seattle when *he* walked in. A hairy, barrel-chested, fortysomething guy with gold chains, a mean grimace, and a stack of papers in a folder stared down at me.

He asked, "Are you Rand Fishkin?"

I was twenty-five years old, disoriented by his arrival, intimidated by his appearance and tone, and utterly panicked. I'm usually a terrible liar, so was taken aback by how quickly a response left my mouth:

"Sorry, I don't think he's here."

We exchanged a few more words, but I remember none of them. My heart was pounding. I hated lying, but I also had no idea what might happen if I identified myself. Matt just put on his headphones

LOST AND FOUNDER

and pretended to be engrossed in whatever website he was working on. When the extra from *The Sopranos* left, I called Gillian, president of our three-person firm (who also happens to be *my mom*). I told her about the unexpected visitor. She guessed he was a debt collector, sent by one of the firms to whom a bank had sold our debt.

Oh, right. The debt. The \$500,000 we owed, in my name, to finance our struggling consulting business.

Ten minutes after I returned to my apartment (actually, Geraldine's apartment—I was unable to pay my half of rent with my sometimes tiny, sometimes nonexistent paychecks, and couldn't pass a credit check, either), I heard a knock on the door. Assuming it was Geraldine carrying something she didn't want to put down to turn the key, I opened up without looking through the peephole.

It was the debt collector.

"Ha! Gotcha," he said.

I was mute.

"You're pretty good, kid. I totally bought that act today. . . ."

Scared senseless, I just stared at him.

He handed me the folder of papers I'd seen in his hands earlier and said, "Rand Fishkin, you've been served."

I couldn't even reach out to take them. He dropped them on the ground and walked away.

"Oops, I Accidentally a Startup"

In the summer of 2000, I was twenty-one with a year of college to go at the University of Washington in Seattle. I'm one of those lucky kids whose parents paid his tuition so he could "focus on his studies, not on work."

THE TRUTH SHALL SET YOU FREE (FROM A LOT OF \$**% STORMS)

That is, until I got into a fight with my dad and he threatened to cut me off. I was too prideful and stubborn to back down, apologize, or reconcile, so, for the next two quarters, I had to pay my own way.

I worked part-time at the Wizards of the Coast Game Center, a giant arcade, gaming events center, and retail shop around the corner from campus. My \$4.75/hour salary was supplemented by buying Pokémon cards with my employee discount and reselling them on eBay and Craigslist for a tidy profit. I designed and built a few websites on the side for some extra cash. And, thankfully, in the early 2000s, college tuition hadn't yet skyrocketed past the point of absurdity. A full quarter, including books, only cost around \$3,000—a sum I scraped together while still managing to have enough to go out to the movies, buy the occasional used video game, and pay the rent on my small, shared apartment.

But two classes away from graduating, I threw in the towel. Part of it was the cost, part of it was the lack of value I perceived from school, but a lot of it was because of a failed romantic relationship (long distance + breakup = broken heart). I wish I could say entrepreneurship was the catalyst for dropping out, but the truth is the other way around. I wallowed in a little self-misery, watched a lot of *X-Files* reruns, and only then realized I needed something to do besides work retail. Web design was my path of least resistance.

In 1981, my mom, Gillian, started a marketing consultancy in Seattle, helping small businesses with their logos, Yellow Page ads, brochures, and other print and advertising materials. In the late 1990s, her clients started asking for websites, and she recruited me to learn FrontPage, Dreamweaver, and HTML so I could help out. I liked the work, and the extra money, and when I told my mom I wanted to work with her full-time and not go back to college, she obliged.

LOST AND FOUNDER

Over the summer of 2001, we dreamed big. Seattle's tech scene was booming in Microsoft's backyard. Startups like Amazon, Kozmo, and HomeGrocer dominated the local news. Everyone was switching from slow, dial-up modems to high-speed broadband. We thought we had an amazing opportunity to design sites for local businesses that needed a presence on the soon-to-be-ubiquitous Internet. When the dot-com crash hit, I barely noticed. Our clients still needed websites, and I didn't pay much attention to the falling prices, the late payments, or the commoditization of web design.

For the next three years, we struggled against increasing competition, pervasive doubt about the web's future, the challenges of getting our clients to pay their bills on time, and, worst of all, our own foolish beliefs about what would help our company grow. We were trying to sell our services in a crowded marketplace without a competitive differentiator. We wasted money on advertising that didn't bring in business. We leased high-priced office space, convinced that an impressive building would help us close deals. We hired contractors and employees who didn't work out. We rented booth space at events that didn't even pay for themselves. And, worst of all, we went into debt to do it.

When I started working with my mom, she had a small amount of debt on the business—less than \$20,000 in total. But three years later, we'd amassed an additional \$100,000 of debt, much of it from the aforementioned missteps. The great thing about a consulting business is supposed to be the low-capital requirements—smart operators often make their consultancies profitable from day one. We went the other direction, and in 2004, after we'd failed to secure yet another client project we thought could put us on the path to success, we defaulted.

THE TRUTH SHALL SET YOU FREE (FROM A LOT OF \$*% STORMS)

It's hard today to imagine the pre-2008-financial-crisis world of personal debt, where banks would extend loans of \$50–\$100,000 to a college dropout with a tiny salary. At the time, credit card offers arrived almost weekly, promising \$10,000 limits that would quickly rise to \$15,000 or \$20,000. Lending institutions were happy to offer us lines of credit and equipment loans despite our meager track record and nonexistent collateral. Promotional interest rates in the < 2 percent range were available for the first two to three years of an account. Seduced by these offers and in desperate need of cash just to make payroll and rent for three people, we went whole hog, racking up a balance that eventually came back to bite us.

We took out loans and put them in my name because I had, at the time, nothing to lose. My mom had her and my dad's assets on the line. They owned not only their home in Seattle's suburbs but my grandmother's house in Connecticut as well, which could have also been on the chopping block as collateral. So it was my social security number and my signature on the loans—something that, at the time, didn't really scare me. Defaulting on these loans never really crossed my mind.

Two of the most memorable days in my early career came that fall, of 2004.

The first was on a Sunday. Gillian had told me and Matt, my friend and our programmer, that we'd no longer be able to afford the rent at our pricey high-rise office tower. Moving out was our only option. We found a tiny shared office space in a run-down part of Seattle above an old movie theater for only a few hundred dollars a month (versus the \$2,000-plus we had been paying), but we'd need to break our lease. That meant the landlord could potentially hold our equipment—including our computers, desks, chairs, and furniture—as

LOST AND FOUNDER

collateral. We had to get it out of the tower and over to the new space fast, without anyone from the building noticing. This part's straight out of a movie.

Matt and I recruited a pair of friends—Marshall and Todd, a couple with two sets of big arms, strong backs, and a spacious truck to whom we promised dinner—and quietly entered the building via the loading garage.

We were halfway through loading up when the tower's security guard arrived. Cue heart falling into stomach.

After a brief, tense discussion on either side of our locked office door, we had the guard make a phone call to Gillian. Somehow, she convinced him to let us finish moving some of the items, but we had to leave a good deal behind to make it seem that we weren't actually "moving out" but rather "moving some things around." With our pulses racing, we took Todd's half-full truck out of the loading dock and across Lake Washington to our new, tiny, bare-bones but safe-from-seizure office. We'd sacrificed a good dozen pieces of unwieldy office furniture and some cheap supplies but felt lucky just to make it out with our computers and essentials. The next week, the company my mom had run for twenty-three years officially closed, and we started a new business under a new name.

But though we'd moved and changed our name, we were far from starting fresh. A couple of months later, that gold-chained debt collector showed up, and I called my mom in a panic.

Even though the debt was being used for business purposes, the creditors would be coming after me personally because it was my signature and my social security number on the applications. Gillian told me she'd try to take care of it. That was the first day I truly understood that most of the money our company owed was actually money *I* owed personally.

THE TRUTH SHALL SET YOU FREE (FROM A LOT OF \$*% STORMS)

It made sense. If Gillian had used her name and her credit to take out even more of those equipment loans and low-interest credit cards, she and my dad could be held liable for repayment, and she already had some debt of her own. They could lose their assets and be forced into bankruptcy. My grandmother could lose her house.

That evening, walking home from work, I started processing our nerve-racking situation and my role in creating it. I'd willfully chosen to ignore and not ask questions about the financial problems we were in, ostensibly so I could concentrate on my part of the work but, in honesty, because I didn't want to deal with it. My mom could handle it. That was her job, right? I was just the web design guy. . . . That's what I'd told myself. But slowly I came around to the idea that sticking my head in the sand about our debt in the hopes it would go away was an untenable path.

When You're in Debt to the Truth, the Interest Rate Sucks

Considering the onslaught of "final notice" letters, threatening phone calls, and the visit from gold-chains-and-chest-hair guy (let's go with "Rocco," as he already fit every other debt-collector stereotype), the logical move would have been to declare bankruptcy. Most of the debt was in my name, a little was in Gillian's, and, because we had defaulted on the bigger chunks in my name, the black marks I was racking up on my credit report were having a similar effect to a bankruptcy (as of this writing, my creditworthiness is still in the toilet). But we had another impediment.

During the four years we built up debt, we'd been lying.

We'd never told my dad, Scott (to whom my mom was, and remains, married), that we had any financial problems, any outstanding

LOST AND FOUNDER

loans, or any debt collectors breathing down our necks. We both feared, rightly or wrongly, that if he found out, he'd divorce my mom and break up our family.

It sounds too dysfunctional to be real, but this lie of omission wasn't without precedent. Growing up, my parents lied to each other all the time—mostly about little stuff (or, at least, those are the only things I knew about). Dad would say, "Don't tell your mom we did this" or, "If anyone asks, tell them you are only seven years old/were promised a discount/were told by the staff it was okay." Mom would say, "If your father asks, tell him we used a coupon/had to because of your school/went here on behalf of a client."

These were mostly innocent lies, crafted in order to prevent an altercation and keep relationships smooth. As an adult, reflecting on these memories makes me realize how profoundly unhealthy the dynamic between my parents was, but as a child and teenager, it made reasonable sense. The goal was to limit anyone getting angry or feeling hurt or left out or ignored. We were lying to keep the peace and maintain the veneer of a happy family unit.

That debt, however, was a much bigger lie than anything I'd ever been part of. I remember Geraldine and I talking about it at the time and for years after. We wondered how my mom could stand to be around my dad, day after day, holding in this giant secret, rushing to get home before him so she could shred any potentially incriminating mail, pretending that the debt-collection calls were wrong numbers, keeping up the appearance that things were fine at work—even bringing home an occasional paycheck to make him think things were okay when we probably should have used that money to stave off the next bank that might sell our debt to collections.

Gillian, ostensibly to keep us from worrying and to help us focus on our tasks, kept some of the details and progress of our struggle

THE TRUTH SHALL SET YOU FREE (FROM A LOT OF \$*% STORMS)

against debt hidden from me at the time. It wasn't until years later that I learned how she managed to dodge some of the worst debt collectors by proactively calling the issuers of the debt (Washington Mutual, Bank of America, Chase, Wells Fargo), sharing the details of our situation, and offering a smaller sum than what was owed in exchange for the creditor writing off the debt rather than selling to collections. Because a collections agency would typically pay the debt holder 5–10 percent of the actual amount owed, then try to collect the full amount and profit from the delta, my mom's tactic was often successful.

While my credit report took the brunt of our debt problems, Gillian bore the lion's share of the stress. She'd always taken care of our finances and transactions. Despite having more than half a dozen credit accounts with various companies, I never even looked at the invoices—I passed them to my mom and went back to designing websites. I knew things were bad, but I rarely asked for updates. I just went about my work, hoping beyond hope that we could somehow land enough contracts and make enough money to pay back what we owed.

Later, I'd hear stories of other small businesses and startups that faced similar situations. Although I wish it were true that cofounders and family business owners and small teams were always honest with one another, that's often not the case. Tinder grew to dominate the world of online dating apps, but behind the scenes, cofounder strife, political struggles, and outright sexism led to lawsuits, stunted growth, and power struggles. Zipcar, one of the fastest-growing players in alternative transportation, lost both its cofounders over years of politicking, infighting, and fundraising struggles. Twitter famously lost nearly all of its founding team. Facebook's cofounder, Eduardo Saverin, helped write a movie (*The Social Network*, released 2010) about his ouster. Despite these all-too-common conflicts, many businesses don't collapse; they find ways of coping, carrying on, and working

LOST AND FOUNDER

through or around poor communication, dishonesty, and dozens of other challenging problems people in high-stakes relationships face. And that's what we did.

Transparency Is Hard, but It Works

There will never be a shortage of justifications for why you believe hiding the truth is the right path. You're worried about hurting someone's feelings. You're afraid if your customers find out about a problem, they'll leave your service forever. You're convinced that you're actually protecting your executive team from stress by redacting details of your investor meetings. You believe the competition probably has engineers idly waiting for some sign of how you've built your amazing technology so they can instantly replicate it and launch before you have the chance.

So you keep secrets. You distort the truth. You tell a few lies. And worst, you think you can get away with it.

Later, when reality comes crashing down (as it always does), you lose the faith of your team or your audience, your investors or your customers. But you justify it by telling yourself: "If things had only gone another way, no one would have even found out, and everything would have been fine."

I have to assume that's what Travis Kalanick thought about his visits to Korean escort parlors with the Uber executive team. And what Facebook thought about testing whether showing particular posts could influence people's moods. It's surely what Steve Ballmer believed about his infamous abusive tantrums at Microsoft leadership meetings. And it's undoubtedly why Tinder's CEO thought he could sexually harass and bully cofounder Whitney Wolfe. When people believe they can hide the truth, many of the incentives inhibiting bad behavior fall apart.

THE TRUTH SHALL SET YOU FREE (FROM A LOT OF \$*% STORMS)

Every founder, every investor, and certainly every employee I've ever talked to in the startup world has stories about the secrets that eventually got out, costing trust, harming relationships, and often affecting revenue and growth, too. But there's another way—transparency. Transparency is making the choice to reveal even the most uncomfortable truths with relentless candor.

Transparency isn't the same as honesty. Honesty is saying only things that are true. Many founders and startup teams are honest (in that they don't directly lie). But transparency requires digging deep to find and expose what others would normally leave unsaid and refusing to take the easy, quiet road. It's tackling the conversations that make your stomach turn and your voice get caught in your throat. And like nearly everything in the world of startups, swallowing the bitter pill now is vastly superior to letting the disease of opacity fester.

If there's an underperforming person on your team, it's easy to ignore him for a while and hope his manager either helps him improve or fires him. It's much harder and more uncomfortable to thoughtfully process why you're unhappy with him, document instances of unwanted behavior, have a direct conversation with the team member, and, if necessary, coach him or work to find mentorship/coaching/classes (whatever it takes to give him the tools to get better if he has the desire). It could still end up that you (or his manager) may have to ultimately fire him. That's the thing with transparency: sometimes, the outcome is the same, but how you got there, and the downside risk, is remarkably different.

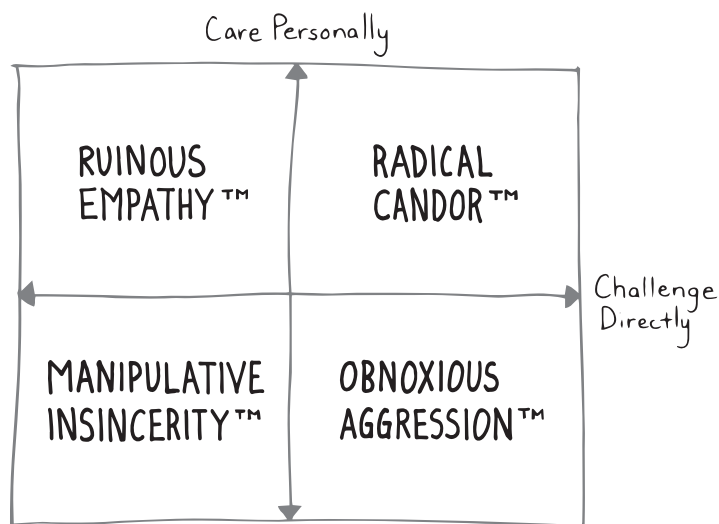
Say you're six months away from layoffs given your current revenue, expenses, and projections. You can be honest by simply remaining silent and imploring your team to improve the growth rate. Or you can be transparent by sharing your financials and your projections and explaining exactly what you need to do between now and

LOST AND FOUNDER

month 6 to avoid cutting the team. Nine out of ten leadership teams won't share that information. They'll fear, perhaps rightly, that team members might start looking for new jobs or leak numbers to the press. But what happens when those layoffs hit? Yeah . . . your team will stop trusting you. They'll no longer believe that things are going "fine" when you say so. They'll always be looking for signs that the next crisis is around the corner. Those team members you hoped wouldn't look for new jobs—trust me, they're far less likely to stay than if you'd been up front.

Transparency's harder at first, and it feels especially painful when it reveals your mistakes or challenges the image you've crafted for your team or customers. Yet, it's immensely powerful, and it has an almost unbelievably positive impact on everyone around you.

Kim Scott, in her book *Radical Candor*, frames this concept in terms of a matrix:



Courtesy of Kim Scott, author of *Radical Candor*

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She outlines one of the most important things to remember when it comes to transparency: you need to balance it with empathy. If I tell you I hate your haircut, I'm being transparent. I'm also being an asshole.

If your funding discussions are not going well, it's easy to hold out hope, tell your team you're still "in the process," and only if/when the last investor backs out or the money in the bank runs dry do you let everyone know that cost cutting and layoffs are happening. Far more uncomfortable, but vastly more transparent, is to give regular status updates on the fundraising process internally so employees and executives know precisely what investors are saying, why the pitch isn't working, and where the business metrics are perceived to be weak and can then anticipate a realistic future and potentially contribute to a better result. It may feel like telling your team is admitting weakness and defeat, but in fact, you'll build camaraderie, support, and a powerful incentive to do remarkable work. I've been blown away, time and again, by the ability that "bad news" has to catalyze great effort and remarkable results.

But I can't do that! My team will freak out!

You'd be surprised at how people rise to a challenge once they know that there *is* a challenge. And don't kid yourself—you may think you're keeping them safe by keeping them in the dark, but some distorted version of the truth always leaks. Misinformation stokes fear and resentment in your team. That's never good for business—or for anyone's well-being. You need your team's trust, not just in that one moment when fundraising's going poorly or growth has stalled, but in the long term. Even after people leave, what they say about you and your trustworthiness will affect basic business functions like recruiting, sales, branding, and bizdev for decades to come.

The most meaningful benefit transparency brings might be its

LOST AND FOUNDER

forcing function for deliberately ethical, rational behavior. As CEO, I'd often tell my executives and board that every email should be written and every conversation conducted as though it will one day be leaked. We should be proud, not embarrassed, by what and how we communicate, even when the doors are closed. There are good reasons for privacy—to avoid shaming an employee for a mistake or to enable discussion about private, personal, or professional issues (among others). But people change their behavior for the better when they assume their peers, their reports, and their leadership will get to see/hear the full story.

Transparency can't just be a tactic, though. It has to be a core value that's consistently followed. If you openly share some things, but hide others, credibility will suffer. Your team will always wonder what you're not sharing. Your customers, your investors, the press—whomever you interact with—will be trained to mistrust you. A reputation for caginess lasts a long time and follows you across companies and geographies.

When we adopted transparency as a core value at Moz, it wasn't always easy, and we didn't always live up to the ideal. But more than any other aspect of the company, transparency, and the trustworthiness it instilled in our team, our community, and our customers built the company's legacy. We shared our financials online (just as I have in this book). We wrote about our product struggles, our fundraising failures, our most difficult internal conversations, our strategy. We were called crazy and foolish for oversharing so much about the mechanics of the business. But we also became trusted, and, especially because the field of SEO and the broader world of tech startups are so often impenetrably secretive, it paid off.

Early in my career, I was deeply afraid of being transparent. I feared if our customers knew the truth about our tiny operation, or about my

THE TRUTH SHALL SET YOU FREE (FROM A LOT OF \$*% STORMS)

age and inexperience, they wouldn't want to work with us. Of course, when we signed a new client, inevitably we'd meet, or they'd search for me and find those things out anyway. I was scared like hell to admit I didn't know how some aspect of HTML worked, but by faking it, I outed my lack of knowledge even more blatantly. My mom and I covering up our debts and our missteps—hiding that risk from my dad? It only caused more stress and fear. Had we been honest from the start, he could have helped, could have saved us the hundreds of thousands in interest penalties we ended up owing. Instead, we created a nightmare of secrecy that nearly ended in professional and personal disaster.

Of course, years later, he did learn the truth. I heard about it from my younger brother, Evan, who told the story this way:

"Dad found out about the debt. Mom tried to play it off, but he found out. I went to my room and put on headphones, but he yelled so loud, the house was shaking."

My only consolation: my dad and I weren't speaking at the time. We've probably had three conversations in the last seven years. Secrets, lies, opacity—they tear families apart just as surely as they do startups.

My credit still sucks. My relationship with my parents remains rough. But I don't get any more unexpected visits from debt collectors who look like they could bench-press me. At least I can put that in the win column.

If we'd been transparent from the start, I believe we'd be in a different, better place today. The only solace is that this lesson, hard won through regret and carried forward in my personal and professional life, helped, over the next decade, to make Moz into something truly special. If you ask me why I'm so open, so bluntly honest about things that the startup ecosystem and business culture usually urge us to keep silent, this is why. I'm done with the pain of secrecy, happy to trade it for the challenges transparency brings.