CHAPTER 31

Bob Davis
Founder, Lycos

Lycos was started in 1995 when CMGI's investment group, @Ventures, bought a search engine developed by Michael Mauldin at Carnegie Mellon University and Bob Davis signed on as CEO. The company grew rapidly over the next several years as Internet usage exploded.

By the peak of the Internet Bubble, it was the fourth most popular site on the Web. In 2000, Lycos was acquired for $5.4 billion by Terra Networks, a subsidiary of the Spanish telephone company, Telefonica.

Davis is currently a managing general partner at venture capital firm Highland Capital.

Livingston: Lycos's original technology came out of CMU. How was the company started?

Davis: The technology was invented back in 1994 by a brilliant computer scientist at Carnegie Mellon University named Michael Mauldin, whose nickname was Fuzzy. It was a research project, the result of a federal research grant. So it was Fuzzy by himself in a closeted office at the research lab at CMU.

He knew he had something, but wasn't really sure what to do with it and didn't want to be a businessperson in a commercial entity. So he worked with CMU's Tech Transfer Office to try to sell the technology. They came across Dan Nova of CMGI, which at the time was a small, early-stage, $35 million venture capital fund, and grew into one of the most successful Internet investment firms of its era. CMGI's venture firm was founded by Dave Wetherell, who understood the magnitude of what this medium would become while most others were still learning how to spell *Internet*. Making a long story short, he acquired 80 percent of the company, and 20 percent of it continued to be owned by a combination of Fuzzy and Carnegie Mellon—10 percent apiece.

Livingston: How did you get involved in the founding of Lycos?

Davis: I was VP of sales for an old-line technology company that sold memory for big IBM mainframes, which wasn't a very exciting job, and I was unhappy. One day my friend Dan Nova called me just to check in socially. He told me about how he was trying to put a deal together with Carnegie Mellon for a technology and that, if he got it done, he wouldn't have a CEO. At that point he was in the early stages of thinking about the deal. I said, "What about me?" He laughed. I said, "I'm serious."

So we talked more about it and I worked with him as he went through the process of wrapping up the deal with Carnegie Mellon. I then joined as the CEO of a company that didn't exist yet because Carnegie Mellon still had the technology and hadn't closed the deal with CMGI. So for about a week in June of '95, I was the CEO of Lycos, but Lycos didn't exist. We had no other employees, no customers, no products.

Livingston: But you had the technology.

Davis: We had the technology. But Lycos was little about the technology and all about consumer brand.

Livingston: What were you focused on doing in the first month?

Davis: Job number one for the first month was about building a team, getting some core people in place. And trying to understand what we were doing for a living and how we were going to go about doing it. Were we a technology company? A media company? Or some hybrid thereof?

We were a little late to the game because, by the time we incorporated, other search engines like Infoseek and Yahoo were in the marketplace. So we showed up trying to figure out what we wanted to do. We were somewhat indecisive in the sense that I couldn't make the call between technology and media. They're different, so we coined the phrase "Technomedia," which meant that we were licensing our technology at the same time we were building our own branded site, selling advertising. It wasn't a good term. We eventually abandoned the technology piece of it and became a pure-play media company.

Livingston: Wasn't the technology group located in Pittsburgh?

Davis: Fuzzy was very committed to being a research scientist and didn't want to join the company or be involved with the business side of it. But our agreement with Carnegie Mellon required us to keep a presence in Pittsburgh. So despite the fact that Lycos was headquartered in Boston, we were obligated to have a meaningful presence in Pittsburgh.

We were fortunate in the sense that Carnegie Mellon gave us a good draw of students, postgraduates, and alumni in the area, since it's a premier computer science institution. We hired our first few technical engineers out of Carnegie Mellon—one that was Fuzzy's student assistant and another that was working in their data labs. I think we probably peaked with 300 employees in Pittsburgh, and certainly substantial pieces of our engineering operation were there.

Livingston: Was this difficult to manage, especially in a startup environment?

Davis: Yes, it was very hard to manage. It's only a short plane ride from Boston to Pittsburgh, but it was almost the equivalent of oceans between us, because you're not able to walk down the corridor and say, "Hello. What can we do next?" This added a substantial burden for the company.

Livingston: So what were some of the other big problems that you faced early on?

Davis: What weren't they? Hiring people, firing people, understanding our business model, getting customers, servicing the customers, finding office space, scaling the company, staring down competitors, going public, raising money, satisfying shareholders. That's all in the first 9 months.

Livingston: Did you know from the beginning that your goal was to go public?

Davis: No. When we started, I felt we could make a big business, but I didn't think it would be quite to the extent that it became. The week after we had started the company, Dan Nova said to me, "This will never be a people-intensive business." But when I finally left the company, we had 3,500 employees. We also joke about the fact that we once said, "At some point, if we're lucky, maybe we'll get up to a million users of Lycos." I think at the time, we had maybe 50,000 or 100,000. When I left the company, we had about 110 to 120 million, monthly.

Livingston: What were the big turning points?

Davis: There was no turning point per se. It was a complete evolution and there was a new opportunity and a new challenge every day. As you mow down one obstacle, there's always another one waiting. We'd be fighting six or seven fires at any given point in time on any given day, and you're fighting all these fires at the same time you're trying to construct the blueprint of the house. So you're dealing with emergencies du jour while you're trying to build a business.

But that's the nature of the entrepreneur and that's the nature of a young business. We'd be hard-pressed to find a company in the history of business that has laid out a blueprint and been able to follow that blueprint chapter and verse throughout its life. It just doesn't happen. It's a changing environment out there.

So there were many issues we faced. Staffing was a huge challenge. Lycos became sexy after a few years, but early on, no one had heard of Lycos, and those that had thought it was this crazy idea that wasn't destined to continue. Never mind the company—people didn't believe in the medium then, so recruiting employees was a challenge. Getting good people on board was tricky because we had no proof points for employees in the sense that there was no demonstrable success.

Livingston: This was before joining a startup was a popular thing to do?

Davis: Well, startups have been around forever, but working for a startup didn't have the euphoria that it had a few months later. But there have always been entrepreneurs and people willing to take risks. The Internet wasn't cool, for sure, and Lycos was unheard of when we started the business.

Livingston: What did you find people misunderstood?

Davis: I think it was more of a lack of a clear vision as to what the Internet would become. There was very little appreciation that it would ever become a household tool. But bear in mind, at this point in '95, even computers in the home were somewhat unusual. We had them on our office desktop, not at home with our kids using them. We look back retrospectively at the Internet and say it's the greatest medium that's ever existed. But in '95 email was unheard of other than in the office.

Livingston: How did Lycos get its first traffic?

Davis: We were fortunate in the sense we had a good product at that point in time, despite the fact that there were others ahead of us. We promoted, we advertised, we aggressively sought PR. Over the years we got a lot of press. We evangelized in a big way. We encouraged our employees to tell their friends, families, and neighbors about Lycos and how they could utilize it. Eventually over a period of about 18 months, we had this snowball that had become a giant snowball rolling down the hill with a lot of momentum that was very difficult to stop.

Livingston: So who were your first customers?

Davis: We talked all the time at Lycos about the three customers we had: employees, our advertisers (the paying customers), and our users. From my standpoint, users were on the top of the list because without the users, we'd have no company. So it's interesting that those who were most removed, in the sense that we had no formal interaction with them—the viewers of our product—were the most important to our success.

And we didn't know who was watching, especially early on. We didn't know when they were watching, but we knew they were watching. We knew from the logs the audience was growing rapidly.

AT&T was our first paying customer—an advertiser. It was tiny: a $5,000 insertion order. But it was euphoria—our investors were excited, employees were excited. And then we took the order and quickly realized that we didn't have any technology to place an ad on our server! We had the technology guys going crazy for about a week and a half, but they figured out a way and we got that first banner ad for AT&T running on Lycos.

Livingston: What was Lycos doing that was different from its competitors?

Davis: We did an awful lot that was similar to one another in terms of the products we sold. If you went to Lycos, Yahoo, Infoseek, or Excite, the products had more in common than they had apart. But where we differentiated ourselves was less so with technology and more so with the consumer, and that's brand.

And we worked very hard on our positioning and our branding of the company in terms of what we wanted it to be. We tried to be this safe, comfortable environment for folks that were just trying to figure out the Internet. We thought of ourselves as the Internet on training wheels. A good way to find your way around was using Lycos, and we worked really hard to position ourselves that way. So we weren't trying to be the souped-up Maserati (as a VP of marketing used to say) that could go 120 miles an hour. And we weren't trying to be a cramped little Beetle. We liked to think of ourselves in that analogy as the family sedan, the Ford Taurus. Not the sexiest out there, but very purposeful in what we did.

We also were different because we focused on earnings from the day we incorporated, and many others did not do that. We were a profitable company very early on, maybe a year and a half or so into our life, and we really were the exception.

Livingston: Which competitor did you worry about most?

Davis: It depends what day of the week it was. Probably Yahoo. Early on, Google didn't exist; they didn't show up until around '98. We worried about Microsoft's intentions for getting into the online world. Its pocketbook was boundless. They could show up with a strong offering and advertise the heck out of it.

Then we also worried about Yahoo because back then it was the 800-pound gorilla. Yahoo had a larger audience than we did. We were playing catch-up with them.

Livingston: Do you remember if you ever had to somehow make yourselves seem bigger than you actually were?

Davis: All the time. We became the most popular destination on the Web in April '99—I remember it well. At that point we were the busiest spot on the Internet—we overtook Yahoo. But for the previous four years we were playing catch-up to Yahoo. So we were always trumpeting ourselves and talking about the Lycos advantage. And over time, the parts became a little bit different, but to the consumer not all that different.

We in the industry saw it differently. Lycos became more search and Yahoo became a directory. If you remember Yahoo back in '95/'96, there really wasn't the search feature. You'd click your way down into things. So you would say literature, books, founders, books about founders—and you would click your way down rather than just doing a simple search.

Livingston: You went public in what was the fastest IPO in the NASDAQ ever.

Davis: It still is.

Livingston: How did you manage that? How did you manage creating a business plan and vision for the company, growing the company, doing all the PR, and preparing?

Davis: We developed a business plan, but I'd be lying to say that we referred to it every day. We spent a lot of time on the plan trying to identify what business we were in and where we'd go, but so much of our life was reactionary. But we focused on increasing users. We focused on expanding the advertising base. We focused on partnerships; getting others to promote Lycos was very effective for us. We had a wide number of customers, like AT&T, CompuServe, and Prodigy, that licensed Lycos technology and put their own search engine online with

"Powered by Lycos" underneath it. Interestingly enough, all three of those companies are gone today.

They were our early licensees. We also did some joint ventures overseas. Probably less than a year into it, we struck a joint venture with Bertelsmann, which was the largest media company in Europe. We put in our technology and they put in about $10 million, and we created Lycos Europe, which was Lycos in native languages for a dozen countries in Europe, initially.

Livingston: So these partnerships and licensing helped drive a lot of new users?

Davis: They were incredibly important for us early on. We had a number of license agreements with companies that would pay us several hundred thousand to millions of dollars to use our technology. So we got a lot of cash from that and then we had a lot more visibility as well.

Livingston: So Lycos was focused on building visibility in many different ways.

Davis: Yes. We were PR evangelists of the highest order and were constantly self-promoting. PR is the cheapest form of advertising and it was always pretty powerful for us. It was the most effective way we had to get the word out to customers.

We eventually became a large national advertiser: there were Lycos commercials, a Lycos race car, Lycos parachutes jumping out of the sky.

I think the life of an entrepreneur is a life of setbacks, challenges, disappointments, and failures. It's not how you celebrate the successes, it's how you overcome the adversity and the hardship that determines how the business succeeds. And I think that's what we were able to do well.

We had a saying at Lycos called, "Let up, you lose." It was all about perseverance and hunkering down and overcoming the tough times and saying, "How can I succeed?" Certainly every day something had to be done, and we needed to have a focus on a lot of priorities at the same time.

We always needed to focus on hiring good people. People are the foundation of any company. Machiavelli said you judge a leader by the strength of his generals, and it's so true. The team that we put in place would determine how successful Lycos would become over time, so we tried to hire very well. And there hadn't been the Internet industry, which made it harder to assess people's skills.

So we focused on hiring. We focused on building customers, going out and developing customer relationships, and of course that meant hiring a sales team to go out and find advertisers for us. We focused on putting infrastructure in place. Bear in mind we had none. We needed computers to operate the equipment, and that was difficult. Early on we had no money to pay for computers, or very little, so we worked on arrangements with companies like Sun Microsystems and others where they'd give us hardware at a hugely discounted rate and in return we would put on our site "Powered by Sun." And eventually it became "Powered by Digital Equipment." We didn't call it that at the time, but in reality, that was a form of advertising. People were trading us product in return for impressions.

Livingston: Did you ever get any other money except from the original deal?

Davis: No. We had, I think, in total, a couple of million dollars of venture capital money.

As part of the purchase agreement, we were also obligated to pay Carnegie Mellon 50 percent of our first $1.5 million in revenues. So from cash flow, another $750,000 went to Carnegie Mellon. For real working capital, we had a million and a quarter, and that was all we ever had.

So we focused on building our infrastructure, which was difficult. We were always nomads in the sense that we were outgrowing our facility and moving from space to space, trying to stay one step ahead in the urgent need to move.

We were also constantly working at integrating the product. Keeping up with the Joneses, or staying ahead of the Joneses, was always a tricky thing to do. There was massive copying in the industry. Not in the legal sense of taking someone's intellectual property, but in the sense that when we would put a new service online, it generally wouldn't take more than a week for a competitor to do the same thing. For example, when we added the ability to search images online (which is now common, but we were the first to do it), two months later it was everywhere.

Many services that are so commonplace today were all brand new back then. We were a day at a time. There was massive innovation, and this innovation has changed the way the world will communicate for decades.

Livingston: Was the innovation technological innovation?

Davis: There was very little technology. We would have engineers in Pittsburgh come up with an idea and roll it through. We would have product marketing specialists, management or individual contributing employees come up with ideas, and the Pittsburgh guys would develop them. We would outsource a lot. We would license products ourselves.

After a year or so, our audience became substantial. Soon the industry had what was then called the four horsemen: Lycos, Yahoo, Infoseek, and Excite. And then all others were looking for business online to leverage our audience. Among the four of us, we had it all. Search is the ultimate killer app.

Picture the Internet as this giant card catalog in the Library of Congress, and all of a sudden the card catalog tips over and all the papers are on the floor and you can't find anything. You don't know where the books are. Search is your order to that chaos, and so people came to us in big, big numbers.

Livingston: You accomplished so much so quickly as a first-time CEO. What did you find you were better at than you thought?

Davis: I think how much we grew so fast surprised me, and I think the most satisfying thing for me was being able to scale the company through all of that growth. We were growing 200 percent to 300 percent a year, every year. People don't realize that a rapidly growing company is crumbling within and feels pain every hour of every day because nothing works the way it was designed as little as a year before.

In a growth business—which is where you always want to be as an entrepreneur, because it's a lot more fun than the alternative—things are breaking every day. The accounting system that I used in '95 was useless in '98. The systems and the computers that I used weren't powerful enough 12 months later. The facilities that we would lease weren't big enough. The data center wasn't powerful enough to manage the computers we needed. Everything would crumble, and you needed to be one step ahead of that all the time. So amazing growth was a challenge, but it was an awful lot of fun. And it's important that you do it with perseverance. You do it with a sense of determination and doggedness that says, "I can overcome."

Livingston: I usually ask people when did they most want to quit, but I have a feeling you never did.

Davis: That's not true. There were times where you're overwhelmed. Though I am not sure I actually wanted to quit, I was probably close. The time I was feeling most overwhelmed was when we had an attempted merger with Lycos and Barry Diller's USA Networks in 1999. That became a very controversial transaction, as it was the first attempt to merge offline and online assets. We announced the merger, and then in the face of shareholder dissent, I failed to complete it.

Livingston: Was it hard to be in the limelight like that?

Davis: If there was any good thing that came out of it, I'd say it was the enormous publicity we had. In a perverse sense it was valuable to us because, throughout all this, the Lycos audience was soaring. Lycos was in the news every day in a way we never could have bought. At the same time we killed the deal with USA, we overtook Yahoo for the number one destination online. And then back to the importance of perseverance, we stayed with it, and a year later, Terra came knocking at the door and offered us a very attractive price. We sold Lycos for $5.4 billion, which represented a return on venture capital investment of about 300,000 percent.