



# THE NEW TECH ERA: PRINCIPLES AND PATTERNS OF SUCCESSFUL STARTUPS

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Master Thesis

International Business Law LL.M

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JUNE 10 2016

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## INTRODUCTION

The year 2015 was not the greatest year for tech startups initial public offerings in the United States; only 14% of them decided to go public and it's the lowest percentage recorded since mid-1990<sup>1</sup>. The latest trend shows us that especially tech startups companies prefer to remain privately as long as it's possible.

Why is this phenomenon occurring? The explanation of this has wide variables but certainly, the huge investment of venture capitalist financial rounds, in addition to over-regulation of policies, encourage startups to stay privately held<sup>2</sup>. In response to this growing phenomenon, in 2012 the Jumpstart our Business Startup Act (the "JOBS Act") presented the Emerging Growth Company (EGC) test. To be exempted of certain regulatory policies related both on going and being public, those companies had to fulfill a certain amount of requirements, such as a 'total annual gross revenue' of less than \$1 billion dollars during its last fiscal year.<sup>3</sup> Certainly, taking into account the percentage mentioned above, the impact of this regulation was not entirely efficient

The truth is that, time has changed, back in the 90's Microsoft went public with less than \$1 billion dollars valuation<sup>4</sup>. Nowadays, we face a completely new paradigm the so called 'Unicorns' this means companies with valuations of \$1 billion or higher. Since -the term was coined- until today, unicorns transformed from being mythical, to rare and to not so rare.

In correspondence to the above mentioned, we realized that something different was emerging in the legal and business world. To be more precise, the classic regulatory and policy making in the corporate governance, the traditional business models and the governance rules and regulations in between others, were facing a downfall phase and the reason of it is could be attributed to the disruptive technological and innovative era.

This said, the methodology used in the present work is based in the research of different sources of information such as academic papers, newspaper articles and tech blogs with the intention of finding common principles among the 2015 most successful tech startups companies -from the point of view of the media- located in the United States no matter if they went public or they remained privately held.

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<sup>1</sup> Rolfe Winkler and others, 'Tech Startups Feel An IPO Chill' (WSJ, 2015) <<http://www.wsj.com/articles/tech-startups-feel-an-ipo-chill-1445309822>>

<sup>2</sup> Vermeulen, Erik P.M. "New Metrics for Corporate Governance: Shifting Strategies of 'Activist' Investors in an Aging IPO Market" Lex Research Topics in Corporate Law & Economics Working Paper No. 2015-1 (2015) Available at: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2576510&download=yes](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2576510&download=yes)

<sup>3</sup> 'Jumpstart Our Business Startups Act, Frequently Asked Questions - Generally Applicable Questions On Title I Of The JOBS Act' (Sec.gov, 2012) <<https://www.sec.gov/divisions/corpfin/guidance/cfjjobsactfaq-title-i-general.htm>> U.S Security and Exchange Commission "Jumpstart Our Business Startups Act ("the JOBS Act"): frequently ask questions" (2012) Available at: <https://www.sec.gov/divisions/corpfin/guidance/cfjjobsactfaq-title-i-general.htm>

<sup>4</sup> Timothy Lee, 'The IPO Is Dying. Marc Andreessen Explains Why.' (Vox, 2014) <<http://www.vox.com/2014/6/26/5837638/the-ipo-is-dying-marc-andreessen-explains-why>> accessed 9 June 2016.

Subsequently, the first two chapters reflect the performed research. Meanwhile, the second chapter is a brief synthesis of the observed common principles. Last but not least, the third chapter tests the mentioned principles in relation with the performance of the startups.

## I- PRODUCT

The 21<sup>st</sup> century, due to the globalization and social networks, brings with it a spontaneous world where consumers are connected, and there is almost no barriers of entry for new ventures. The consequence of this new era is that traditional markets or industries are being re-imagined, for instance the taxi industry with Uber and the hotel industry with Airbnb, among others. Some people call this ‘democratization of entrepreneurship’ where entrepreneurs create new strategies and structures for disruption and innovation.<sup>5</sup>

### 1-UNIQUE BUSINESS MODEL

#### 1.1- SHARING ECONOMY BUSINESS

The sharing economy is a business model chosen by more than one tech startup, and it is not a coincidence that the two tech startups with higher valuation in the US market (Uber and Airbnb) choose it. What does a sharing economy business mean? Either for social reasons, economic reasons, practical reasons or sustainable reasons, people believe on potentate the economic exploitation of their underused assets. A key factor in this collaborative consumption model of sharing is the trust between the parties it involves and the efficiency that it creates. In other words, it is a *“Social and economic system driven by network technologies that enable the sharing and exchange of asset from space to skills to cars in ways and on a scale never possible before”*<sup>6</sup>. The power of technology plays a very important role in building trust between strangers and the way of measuring it is through a reputation system, and this particular socio economic element, is the one that makes this sharing economy model work. Being more precise and exemplary, we can take a look at how tech startups use this sharing model:

For instance- Uber, a tech startup that offer transport service. Unlike the well-known taxi industry, this disruptive business offers the service of a cab, but the driver is an independent worker who labors for Uber, working majorly part time. In other words, it’s a stranger- owning a car and lending his own assets, to another stranger, while earning money of which he keeps 80% of the revenue and 20% goes to Uber. While the taxi medallion is the requirement- which enables you to belong to the industry- and this means investing a significant amount of money at once-; Uber was born to palliate the inefficiencies of the already traditional system. Nevertheless, Uber is not the only tech startup in the transportation service, Lyft offers quite a

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<sup>5</sup> 'The Global Startup Ecosystem Ranking 2015' (*Startup-ecosystem.compass.co*, 2015) <<http://startup-ecosystem.compass.co/ser2015/>>

<sup>6</sup> Rachel Botsman, 'The Currency Of The New Economy Is Trust | Rachel Botsman' (*Rachelbotsman.com*, 2012) <<http://rachelbotsman.com/work/ted-global-talk-the-currency-of-new-economy-is-trust/>>

similar service with the same collaborative system and the revenue is the same proportion as his competitor.

Airbnb, is another good example but related to the peer-to-peer accommodation market. In this particular case the offered asset is the accommodation. Most of the times the host takes advantage of the free room in their house and decides to rent it out for a short period to a stranger. The business revenue share model, is a flat 10% fee commission for the owner of the property and a transaction fee of 3% for the travelers.

Last but not least, from the same seed accelerator-Y Combinator- that Airbnb, Instacart is also in the share economy business, but in the grocery delivery section. The smartphone app startup offers a personal shopper who receives the grocery list, shops for you, and finally takes it to your house in his own vehicle. The revenue for the shoppers is in between \$9 and \$30 dollars an hour depending on how fast they deliver the food to the consumer. The main difference between Instacart and the above explained startups is not disrupting a traditional industry, on the contrary, it has been welcomed by many groceries chains.

In conclusion, the share economy business, not only allows users to take advantage of their assets, but also that empowers people to build connections through technology and create personal relationships and not only business transactions. In certain way, *“to re-discover the human nature that had been lost”*<sup>7</sup>.

### **1.1.1-REPUTATION AND REFERRAL PROGRAMS**

As we previously explain, one of the key points about the sharing economy business model is the trust generated by strangers who decide to share or lend their personal asset, given that, is not easy for people to get in a car of an unknown person or to sleep under the same roof with a stranger. Indeed, these tech startups have achieved what some people thought that it will be impossible. How does trust between strangers emerge? Due to this kind of apps, people create their reputations, and therefore the “measurement of how much a community trusts you”<sup>8</sup>.

In Uber’s case, they have a punctuation system where the users rate drivers from 1 to 5, stars,-for the drivers to keep offering their service via app they need and average of 4.5 stars, if the driver has less than the average he cannot offer his service through Uber anymore<sup>9</sup>. Lyft has also their own ‘star rating’ system, where drivers as well as passengers are rated, if the driver’s is rated with 3 (out of 5) stars or lower they will never be matched again with that passenger. On

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<sup>7</sup> Rachel Botsman, 'The Currency Of The New Economy Is Trust | Rachel Botsman' (*Rachelbotsman.com*, 2012) <<http://rachelbotsman.com/work/ted-global-talk-the-currency-of-new-economy-is-trust/>>

<sup>8</sup> Rachel Botsman, 'The Currency Of The New Economy Is Trust | Rachel Botsman' (*Rachelbotsman.com*, 2012) <<http://rachelbotsman.com/work/ted-global-talk-the-currency-of-new-economy-is-trust/>>

<sup>9</sup> James Cook, 'Uber's Internal Charts Show How Its Driver-Rating System Actually Works' (*Business Insider*, 2015) <<http://uk.businessinsider.com/leaked-charts-show-how-ubers-driver-rating-system-works-2015-2>>

the other hand, if the passengers has a low rating it might be difficult for someone to accept their request<sup>10</sup>. Another tech startup that uses the reputation feature, and is key factor for their success, is Airbnb. For those who at least had used the app at least they'd notice that after staying as a guest or being a host they have the possibility (it's not mandatory) to write about the experience they had and the relationship created with the guest or host. Building a good reputation is fundamental for the user.<sup>11</sup>

It's not a coincidence that two tech startups- with the same seed accelerator- Y Combinator, use the same strategy, we are talking about Airbnb and Dropbox. Since the implementation of the strategy ,(2014) a tech startup, Dropbox created a platform to share files in an easier way, across computers and between people, went from 100.000 users to 4 million in just four months, representing 9.79% growth of users per month. Meanwhile Airbnb informed that their daily bookings tripled after the implementation. How does the strategy works? In the case of Airbnb, when a user invites a friend to the network, the sender and the receiver benefit from it with \$25 of travel credit once the invited user ends his first trip. In addition you can even benefit with \$75 of travel credit if the friend you invited hosts a guest for the first time. Dropbox, instead of offering credit or cash bonus, offers free storage space of 500MB to both parties for participating. This is quite convenient for the company because they are giving out resource for free (storage) and meanwhile encouraging people to stay loyal to the system<sup>12</sup>.

## 1.2- LEAN START UP

The Lean Startup method was coined by Eric Ries in 2008. This methodology intends to help ideas develop into businesses, it's not about having a brilliant idea but testing if your idea solves a real problem to a real person. There is not a magic recipe, some startups fail because they operate on a conventional approach, the so called traditional business, this means, build a product that works perfectly and delivery it, but without knowing if the market wants that product or if it solves a real problem. This method has risk. Assuming your product will be accepted by the market will cause a waste of time and money. On the other hand, the Lean Startup methodology comes with a solution or alternative to the traditional approach, it's based on a cycle, starting with an experimental phase-discovering if there is a real problem to address- , after this, the pre-sale,-selling the product without having it yet- and lastly the concierge-solve the consumer problem in the simplest and easiest way- In this last stage is where the Minimum Viable Product (MVP) is tested. The MVP is a prototype and it's launched to collect data and

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<sup>10</sup> Inc. Lyft, 'Driver And Passenger Ratings' (*Lyft Help*, 2016) <<https://help.lyft.com/hc/en-us/articles/213586008-Driver-and-Passenger-Ratings>>

<sup>11</sup> 'Building Trust With A New Review System - Airbnb' (*The Airbnb Blog - Belong Anywhere*, 2014) <<http://blog.airbnb.com/building-trust-new-review-system/>>

<sup>12</sup> Sujana Patel, 'Learn The Growth Strategy That Helped Airbnb And Dropbox Build Billion-Dollar Businesses' (*Forbes.com*, 2016) <<http://www.forbes.com/sites/sujanpatel/2015/02/25/learn-the-growth-strategy-thats-helped-airbnb-and-dropbox-build-billion-dollar-businesses/#41632e6e20cd>>



learn what the consumer's reactions are towards this new product. The goal is, it's to help the entrepreneur build the business' bases in the fastest and cheapest way. From here, there are two possibilities, if the product is validated by the customers, focus on refining the product, if not keep on pivoting (repeat the cycle again)<sup>13</sup>.

However, there is a very good example that Bill Gross, founder of Idealab, gave as of the Lean Startup, even though in that time the concept as we know it today it was not coined yet. In the 90's Gross and his team decide to test how willing people were to start buying cars in an online platform, they had 90 days and \$80.000 to use for this project. Gross was sure about something, they don't even need cars, because they didn't know at that point if they will be able to sale them. Ten days before the deadline they launch the webpage; the same night of the launch they sold four cars. That's how Card Direct was born and after that sold to Hellman & Friedman<sup>14</sup>. In other words, the important thing about this example is noticing that it's not important to have a finished product, but testing if that idea is accepted by the market.

The Lean startup methodology is mostly present in the tech startups world. The example par excellence is Dropbox, this methodology adopted in early stages by the startup was the key for success. With the slogan 'learn early, learn often', we can have a first approach of the strategy Dropbox chose to apply. They didn't want to spend too much time in getting a perfect and finished product, they wanted to build the prototype based on the customers' requirements. The MVP used was to launch a video on Hacker News<sup>15</sup>, a web page ran by Paul Graham founder of Y Combinator. Overnight, after the release, 70.000 people decided to sign up<sup>16</sup>. In addition, another way of learning about the target audience was coming up with 'Vote Box' an easy way to get know, throughout a voting system, which features the customers wanted to add to the platform, leading once more, to the loyalty of the customers<sup>17</sup>.

Joe Gebbia and Brian Chesky, founders of Airbnb didn't have the same positive reaction of the customers in 2007 when they began with the idea of the startup; in fact the release of their first platform (MVP) to connect guests with hosts, airbedandbreakfast.com, was a complete failure. Not content with result, they decided to change tactics, with a supply-demand problem approach, this time they took advantage of the SXSW Interactive conference in Austin and then the 2008 Democratic National Convention in Denver. Pivoting for them was what lead them to success, in addition to applying to 'Y Combinator' and Paul Graham giving them the advice about travelling to NYC. However, Airbnb nowadays still uses the Lean Startup

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<sup>13</sup> "The Lean Startup" By Eric Ries - BOOK SUMMARY' (YouTube, 2016) <<https://www.youtube.com/watch?v=sobxOzRjAGg>>

<sup>14</sup> "Lessons Learned From Bill Gross' 35 Ipos/Exits And 40 Failures".' (Firstround.com, 2016) <<http://firstround.com/review/Lessons-Learned-from-Bill-Gross-35-IPOs-and-40-Failures/>>

<sup>15</sup> 'Dropbox Demo' (YouTube, 2008) <<https://www.youtube.com/watch?v=7QmCUDHpNzE>>

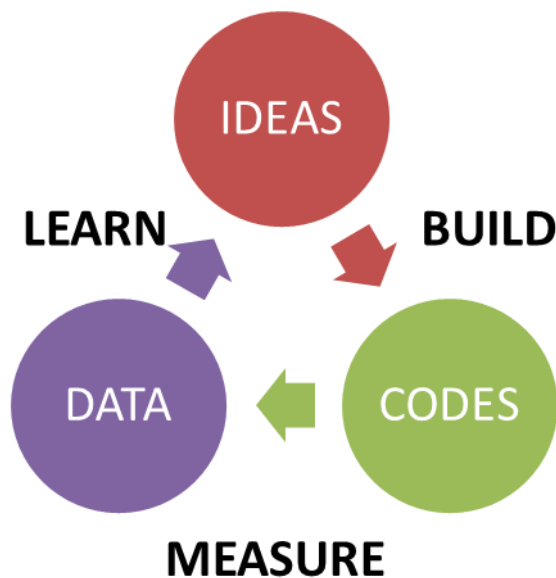
<sup>16</sup> Matty Ford, 'The Lean Startup Methodology' (blog, 2014) <<http://mattyford.com/blog/2014/11/11/the-lean-startup-methodology>>

<sup>17</sup> Dropbox @ Startup Lessons Learned Conference 2010' (YouTube, 2014) <<https://www.youtube.com/watch?v=y9hg-mUx8sE>>

Methodology and they build their own A/B test framework or “experiments” as they call, “*to learn and make decisions at every step of product development, from design to algorithms*”<sup>18</sup>. The advantage of using A/B testing is that they control the external factors, such as filters on price range and design of the website.

The A/B tests are frequently used tools by many startups and it seems to be an effective way to get to know users preferences. For instance Cloudera, a tech-software company that also uses this testing system, known as Cloudera’s Gertrude, believes that “experiments lead to expertise”<sup>19</sup>. Another good example, of a tech startup that use this kind of experimentation is OkCupid, an online dating site (subsidiary company of Match Group that also owns the well-known Tinder). The experiment is based on people’s interactions and preferences at the time of choosing someone to have a date with, for which they’ve been collected data since 2009<sup>20</sup>.

*Lean Startup diagram:*



### 1.3- THE HUB AND SPOKE BUSINESS MODEL

Zenefits is a San Francisco-based Software as a Service (SaaS) company, which also came up with a disruptive business model, in this case in the insurance broker industry. They provide a great solution for a big problem in small companies, where having a human resources (HR) department is almost impossible as well as expensive. The simple software offered by Zenefits is to engage companies to process everything throughout their system, and what it is more attractive is that the software is for free (hub), consequently the startup get their revenue

<sup>18</sup> Jan Overgoor, 'Experiments At Airbnb - Airbnb Engineering' (*Airbnb Engineering*, 2014) <<http://nerds.airbnb.com/experiments-at-airbnb/>>

<sup>19</sup> 'Experimenting At Scale, Josh Wills' (*YouTube*, 2012) <[https://www.youtube.com/watch?time\\_continue=1459&v=T74dIMgT3a8](https://www.youtube.com/watch?time_continue=1459&v=T74dIMgT3a8)>

<sup>20</sup> Christian Rudder, 'Race And Attraction, 2009 – 2014' (*OkTrends*, 2014) <<http://blog.OkCupid.com/>>

of the commission (Spoke) they get when the companies buy for instance, their health insurance or choose a payroll provider throw their product.<sup>21</sup>

The hub and spoke business model isn't as explicit in Zenefits, but Square Inc., a provider of hard and software product that enables small business to process card payments use a similar approach. The disruptive business model is simple, the merchant orders the card reader (hub) for free, and download the software (hub), also for free, to a smart phone or tablet. The revenue for the company is the commission they receive every time a debit or credit card is swiped in their device. Hence, the merchant keeps a 97.25 %, while Square charge 2.75% for the processing and the service fee.<sup>22</sup>

## 2- MARKETING STRATEGY AND ADVERTISEMENT

There is not a right or wrong path to choose to be successful, and this applies also to the marketing strategy as well.

On the one hand, we can find those startups that spend almost no money in marketing- and still their product go viral. This is the case of Dropbox, and this was not casual, it was a consequence of their referral program (as referred previously in the section I.1.1.1). To understand the virality of a product we have to take into consideration two variables, the first one is the time and the second, the numbers of new users<sup>23</sup>. A common pattern is that tech startups, instead of spending money in nonsense advertisement they prefer to embrace marketing from a different point of view. For instance, Uber starts with free rides during Austin's SXSW Conference, and every time they offer their service in a new city, they repeat this promotion.<sup>24</sup>

On the other hand, we will also find that advertisement still have and important role in the tech world, but not as we know it in the traditional way. It's not a coincidence that Evan Spiegel, CEO of Snapchat, qualified them as "creepy" hyper-targeted ads. The reason for this is that mostly, advertisement is considered by the customers invasive and not accurate in the context. Given this, Snapchat's strategy is to target video ads in different live events through their platform. For instance in iHeartRadio, a music festival, they got a peak of 430 million of

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<sup>21</sup> Burt Helm, 'Airbnb Is Inc.'s 2014 Company Of The Year' (*Inc.com*, 2014) <<http://www.inc.com/magazine/201412/burt-helm/airbnb-company-of-the-year-2014.html>> Helm, Burt "Airbnb Is Inc.'s 2014 Company of the Year" inc.com (2014) Available at: <http://www.inc.com/magazine/201412/burt-helm/airbnb-company-of-the-year-2014.html>

<sup>22</sup> Christian Rauch, 'Square, Inc. - Business Model, Venture Financing And Valuation' [2016] SSRN Electronic Journal <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2716331](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2716331)>

<sup>23</sup> Marcus Taylor, 'The Ultimate Startup Marketing Strategy' (*Venture Harbour*, 2014) <<https://www.ventureharbour.com/?s=the+ultimate+marketing>>

<sup>24</sup> Michael Tunney, 'How 10 Startups Exploded Using Creative Marketing' (*NextShark*, 2013) <<http://nextshark.com/heres-how-10-startups-exploded-using-creative-marketing/>>

impressions<sup>25</sup>. Moreover, they came up with the so called “Our Story” where everyone assisting to the same event is entitled to add pictures or videos in the special story of the event. This was what occurred in the Electronic Daisy Carnival in Las Vegas last year, thus enabling a massive festival community video<sup>26</sup>. Not content with the idea that this kind of modern way of ads will be for the enjoyment of all users, they decided to commission a survey to Millward Brown Digital Studies yielding positive results taking into consideration that the ads are not mandatory to view. The survey was based in two different features offered by Snapchat, the first one was “Brand Story” a 20 second video ad and the second was the already mentioned “Our Story”, according to the study, the first feature, had an approval of 44% of the impacted users, meanwhile the latest-“Our Story”, with a better acceptance of the 60 %.<sup>27</sup>

However, Snapchat is not the only tech startup that has targeted advertisement in their platform. Pinterest, a web and mobile application that offer tools for discovering ideas for projects and interest, is also involved with the same concept. Tim Kendall, general manager of monetization, declared in an interview with Business Insider, that they consider having the best business model, due to the fact that the ads implemented in the platform fits perfectly with the idea that is being offered, and they are well accepted by the users<sup>28</sup>. A recent study provided by Millward Brown digital, enlightens us data about the impact of Pinterest in future purchases. Based on active users, 93% reported that they use the platform to plan future purchases and another 87% reported it has helped them to decide what to purchase<sup>29</sup>. The feature released is the so called “Promoted Pins”. The advertisers have two models of payment to choose, the first one is called cost-per-engagement and the second one, is the denominated cost-per-action. Moreover, advertisers have also the possibility to pay Pinterest for them to design a suitable pin, they name this the “Pin Factory”

## **2.1- GODADDY: A CASE STUDY**

GoDaddy a Scottsdale-based company is one of the few tech Startups that went public in 2015 and probably, also one of the few who succeeded<sup>30</sup>. Founded in 1997 by Bob Parson, the domain registrar and web hosting company, had to wait 16 years to enjoy what success means until the year 2013, when the new CEO, Black Irving, came to replace the founder. This

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<sup>25</sup> Heine, Christopher “The latest options from Facebook to Snapchat to Whisper” *adweek.com* (2015) available at: <http://www.adweek.com/news-gallery/technology/heres-buyers-guide-ad-targeting-8-social-platforms-167754in>

<sup>26</sup> Nathan Ingraham, 'Snapchat Launching Collaborative Photo And Video Sharing At EDM Festival This Weekend' (*The Verge*, 2015) <<http://www.theverge.com/2014/6/17/5818458/snapchat-launches-collaborative-sharing-at-edm-festival>> accessed 9 June 2016.

<sup>27</sup> Tim Peterson, 'Snapchat's First Advertiser: Messaging Service Is Like TV' (*Adage.com*, 2015) <<http://adage.com/article/digital/snapchat-s-advertiser-messaging-service-tv/295473/>>

<sup>28</sup> Jillian D'Onfro, 'Why \$11 Billion Pinterest Thinks It Has The 'Best Kind Of Business Model' (*Business Insider*, 2015) <<http://uk.businessinsider.com/pinterest-new-ads-2015-5?r=US&IR=T>>

<sup>29</sup> Rachel Eisengerg, 'Pinterest And The Power Of Future Intent' (*Millwardbrown.digital.com*, 2015) <<https://www.millwardbrown.digital.com/pinterest-and-the-power-of-future-intent/>>

<sup>30</sup> Alice Truong, 'The Winners And Losers Of 2015'S 10 Most Closely Watched Tech Ipos' (*Quartz*, 2015) <<http://qz.com/579502/the-winners-and-losers-of-2015s-10-most-closely-watched-tech-ipos/>> accessed 9 June 2016.

new leadership gave the company a radical overturning with a new branding and a completely different vision. Here advertisement comes into play as a fundamental role for the company. While in the years of Parsons as CEO, the company became famous capturing the attention of the audience due to the Super Bowls ads, few people that had the opportunity to watch them would be able to describe what the company's main business was. In other words by the actual CEO "*never has a company had as big a gap between what the ads say and what the company is*"<sup>31</sup>. The problematic point, is that during all those years, the startup built their reputation with a series of ads in the well-known sport event, which was classified as juvenile and even sexist. At this point it's important to highlight, that 58% of small businesses<sup>32</sup> are ran by women in the U.S, and the probabilities that this kind of ads encourage them to register their domains in their webpage are quite lower. But with Irving's arrival of Irving those days remain in the past. They realized they need the positive attention of the audience and to work arduously in building a new image for the company.

Lastly, with this special case presented, we arrive to the conclusion, that the wrong and inaccurate advertisements can have a negative effect on the company, that's why it's important for the startups, as previously explained in the chapter, get to know the reaction of the customers towards the product, or in this case the advertisement. It is not our task in this thesis to predict what could have happened if the former CEO and founder of the company will still now –a-days be charge of it, but the success achieved at the moment of the IPO was in great extent to the changes applied by newest CEO, Blake Irving.

## 2.2- DRAFTKINGSS AND FANDUEL A CASE STUDY

Early in this chapter we have been pointing out how important advertisements are for the reputation of the company and even how consumers are reluctant against invisibles ads, apart from the denial of some startups on spending too much money on ads. Nevertheless, this is not the case of Draftkings and FanDuel-both providers of daily fantasy sport contest which where the users can win money depending their individual and team performances in five of the major US sports-.These two companies altogether had spent the large amount of 150 million of dollars only in the third quarter of the year 2015, and according to the Legal Sport. Despite being branded as annoying<sup>33</sup>, this method seems to work for both companies, and we can see it

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<sup>31</sup> Adam Lashinsky, 'Finally Gave A Damn 'Bout A Bad Reputation' (*Fortune*, 2014) <<http://fortune.com/2014/04/10/finally-gave-a-damn-bout-a-bad-reputation/>>

<sup>32</sup> Adam Lashinsky, 'Finally Gave A Damn 'Bout A Bad Reputation' (*Fortune*, 2014) <<http://fortune.com/2014/04/10/finally-gave-a-damn-bout-a-bad-reputation/>>

<sup>33</sup> Myles Udland, 'Fantasy Sports Companies Spend So Much On Commercials They're Moving The Needle On TV Ad Spending' (*Business Insider*, 2015) <<http://uk.businessinsider.com/draftkings-fanduel-daily-fantasy-sports-advertising-2015-10?r=US&IR=T>>

reflected in their valuations that which from 300 million dollars to more than 1 billion.<sup>34</sup> The bombardment of advertisements that lead to engage millions of users in bets, works for these companies thanks to the “shark and fish” theory. In simple words: the percentage of sharks are few –winners- meanwhile the great majority are the fish–losers-, in fact this is the reason why this kind of companies are willing to spend a huge amount of money in ads.

### 2.3- STORYTELLING

Telling stories is the essential feature found in the startups analysed in this thesis. There is a shift in the marketing strategy paradigm and it is not given by the traditional structure of the company trying to convince the audience telling how great their product is. On the contrary, the own consumers who are the ones delivering their own experiences, it is more about a consumer-centric approach instead of product-centric one, hence, we can say that the need of the brands is fundamental to engage more with the consumers. The aim of storytelling is creating connections and relationships focus in the consumer’s needs, interest, ideas and problems<sup>35</sup>. Mark Evans, a startup marketing expert, and author of “Storytelling for Startups: How Fast-Growing Companies Can Embrace the Power of Story-Driven Marketing”, also highlights another positive aspect about storytelling, that was also something emphasized in the beginning of this chapter. This is an effective way to attract the spotlight without spending too much money in marketing<sup>36</sup>. What is noticeable is that the audience is interested in getting to know stories about normal people, that could be a friend, a family member or even themselves, and the message of this storytelling is that everyone can have the same experience with good results.

Airbnb is a good storyteller, to exemplify this we randomly choose and describe one of Airbnb’s community stories. There are plenty of stories but we just want to describe one of them, to show how people telling about their experiences in a sincere, simple and touching way to motivate other people to join the so called community of Airbnb. The first chosen story is about Judith, a retired chaplain, that after her husband passed away, she felt really down and unmotivated to the point she didn’t want to visit the kitchen, because there was nobody to cook for. This was the breaking point, when she decided to host someone from Airbnb. In her own words, richness went back to her life, giving her the opportunity to be back on service and now she has the opportunity to give and receive love and to get to know people from all parts of the world<sup>37</sup>. With just a 2 minutes video, , Airbnb through this story has managed to convey that

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<sup>34</sup> Joshua Brustein, 'You Aren't Good Enough To Win Money Playing Daily Fantasy Football' (*Bloomberg.com*, 2015) <<http://www.bloomberg.com/news/articles/2015-09-10/you-aren-t-good-enough-to-win-money-playing-daily-fantasy-football>> accessed 9 June 2016.

<sup>35</sup> Michael Cayey, 'Storytelling For Startups Matters' (*Startupgrind.com*, 2015) <<https://www.startupgrind.com/blog/storytelling-for-startups-matters/>> accessed 9 June 2016.

<sup>36</sup> Mark Evans, *Storytelling For Startups*. (2015)

<sup>37</sup> 'New Chapter: Breaking Bread Together...Again, Airbnb Stories' (*Airbnb*, 2016) <<https://www.airbnb.nl/stories/new-york/new-chapter>> accessed 9 June 2016.



there not just offering a hosting service, if not that they are building a sense of belonging to a community with certain need and values.

Another startup that uses this marketing strategy is Pinterest, and they call them “success stories”. The chosen story this time is about pets, everyone that has a pet knows how important these members are to the family. Petplan Insurance, is not just insurance, through their Pinterest platform they try to communicate relevant health information with a visually compelling format, and with it trying to engage more people to the pet lovers community. Unlike Airbnb’s storytelling video, Pinterest only uses a descriptive format for their success story but it gave us additional and relevant information about the growing success business in this case for Pet Insurance. For instance, the platform provide by Pinterest is the second highest referral of social network traffic for Petplan (69% more page views and 97% greater time on-site than Twitter).<sup>38</sup> Once more, as already explained in the Storytelling of Airbnb, the brands or companies are being successful because their aim is to engage people in a same community where everyone is following a cause with similar values, in this particular case pet’s health.

The next analysed storytelling is the one offer by Dropbox, to exemplify the chosen video is about Sundance, an American film festival located in Utah and the largest of the United States. The video last almost 3 minutes and it shows how simple and touching a video can be. The interesting thing about this, is how they manage to tell their own story, as a company, but adding the tool of Dropbox as an essential part of it and also showing how the platform works, telling how hard it was before they acquired their platform, having to ship DVDs from all over the world or having tons of pen drives that sometimes got lost.<sup>39</sup>

Square, founded by the serial entrepreneur Jack Dorsey, double CEO of the already named and Twitter, use the marketing strategy of storytelling too. Despite the fact that also being the CEO and Co-founder of Twitter is enough advertisement for a new startup, storytelling stands out. The chosen story in this case, is about Woody Lovell, he is the 3<sup>rd</sup> generation of barbers in his family, he decided to recreate the barbershop where he grew up in Kansas City and he came up with “The Barbershop Club” where old fashion and modernity are combined. Woody signed up for Square in 2010, so early in the stratum stage, but this allowed both “The Barbershop Club” and Square Inc. to grow up together. Woody’s on words “Square mas made running my business more easier” while saving money .Once more we are in front of a story of life of a normal person’s life story, that decides to keep running a family business where traditional principles and moral are really important <sup>40</sup>.

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<sup>38</sup> 'Case Study: | Pinterest For Business' (*for Business*, 2016) <<https://business.pinterest.com/en/success-stories/petplan-insurance>>

<sup>39</sup> 'Customers | Dropbox Business' (*Dropbox*, 2016) <<https://www.dropbox.com/business/customers>> accessed 9 June 2016.

<sup>40</sup> 'The Barbershop Club - Success Stories | Square' (*Square*, 2016) <<https://squareup.com/stories/barber-shop-club>> accessed 9 June 2016.

OkCupid belongs to the Match group, as well as the well-known dating app Tinder. They have two ways to approach the storytelling marketing strategy: the first one is based on the user data, where they collect information and then they write a story for instance of which would be the best question for a first date<sup>41</sup>. This reflects the behaviours of different people during a date. The second approach is the one that we have been talking about storytelling: success stories about love that came up due to the platform, the webpage offer different categories such as OkCupid matches, long distance love, second chances, almost gave up, blinded with science, weddings and OkBabies. Everyone that has a match is able to write their love story in the webpage.

Zenefits, the HR platform provider, also offers success stories in their webpage. Anyhow, they are called “case studies” and they describe the changes which mostly small companies had after they started using it. For instance, one case study is about a company called Passport where they explain the results achieved such as: \$2,000 dollars saved per year in vendor fees, 5 hours saved per week in administrative HR work, paperless documents in the cloud and online in one dashboard<sup>42</sup>. It may be that a case study is not visually interesting like a video, but in the case of Zenefits it’s the own story of the founder, Parker Conrad, fundamental asset that makes everyone believe in their software. Conrad came with the idea of the software while working in his previous start up, SigFig, before being fired by his co-founder. The startup was quite small for hiring a HR person, and all the administrative task fell in the founder’s hand.<sup>43</sup>

Lastly, there are some tech startups that instead of telling stories in their webpage, prefer to leave that task to the user’s experience. In the case of Fitbit, an American based startup, that build fitness and health devices, they got a blog for this. The example chosen, is the story of Megan a Kindergarten teacher in Philadelphia that struggles to lose weight, until for one of her birthdays she received a Fitbit One device as a present. She immediately felt motivated, and started working out every morning during the summer with the goal of breaking her own record every day. At the time, she re-joined the school, and she had already lost 40 pounds. It was impossible not to notice her change, so she tells everyone her secret: Fitbit. Moreover, she was so happy with the results that she suggested the school’s HR department to buy 10 Fitbit trackers to check out results and to compete in month challenges between the employees. The change was impressive even in the work environment and culture, and the

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<sup>41</sup> Christian Rudder, 'The Best Questions For A First Date' (*OkTrends*, 2011) <<http://blog.OkCupid.com/index.php/the-best-questions-for-first-dates/>>

<sup>42</sup> 'Passport Case Study' (<https://www.zenefits.com>, 2016) <[https://www.zenefits.com/static/documents/case-studies/Passport\\_Case\\_Study.pdf](https://www.zenefits.com/static/documents/case-studies/Passport_Case_Study.pdf)>

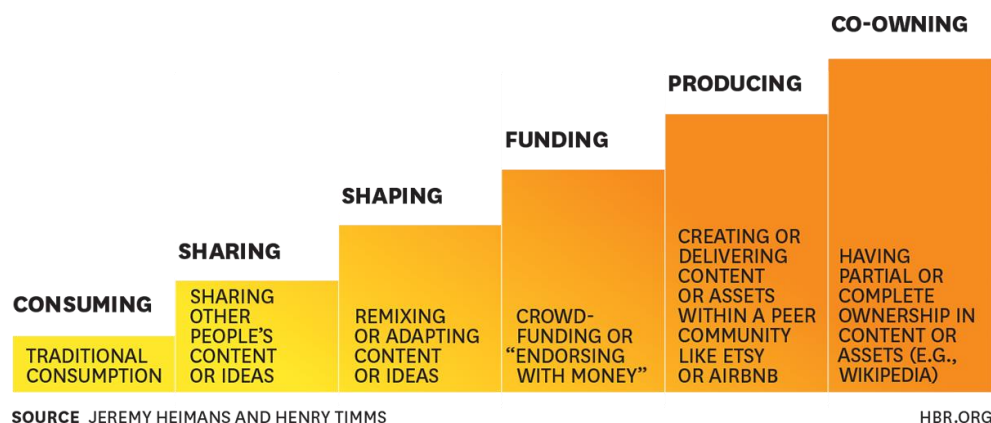
<sup>43</sup> Julie Bort, 'How A Series Of Humiliating Events Led To One Of The Fastest-Growing Startups EVER' (*Business Insider*, 2015) <<http://uk.businessinsider.com/the-incredible-story-of-zenefits-founder-parker-conrad-2015-2?r=US&IR=T>>



group grew from 10 members to 30. At the end of the success story.<sup>44</sup> This is a really interesting story to tell, because you can immediately notice, that the experience of one person could be the starting point of another and what is noticeable as well, is that this heal-focused device creates a community where people can motivate each other to improve their life style.

## II-NEW POWER STRUCTURES

This new era is disruptive, in every way we can imagine, it's not only about the business model and the disruption in the traditional industries, but a shift in the concept of the classic corporate governance and in addition how important it is to have good leader to make a success of the company. We are talking about new power structures, and how this change bring with it new



values related to politics and power.

To make a brief introduction, it is necessary to distinguish between old powers and new power. The first one, could be described as hegemonic, due to the fact that it is held by few; on the contrary new power structures are characterized by being collaborative and inclusive. To be more precise, old power structure are more rudimentary and based merely in consumption.<sup>45</sup> The following participation scale graph of the Harvard Business Review article describes the new era powers and will help us to understand the concepts described above better.

## 1-JOBS-GATES: TWO DIFFERENT LEADERSHIP STYLES

Without any doubt, in the tech world the quintessential example of leadership it's given by Steve Jobs and Bill Gates. That is why it's important to highlight some leadership skills from

<sup>44</sup> 'How Megan K. Dropped 100 Pounds—One Step At A Time! – Fitbit Blog' (*Blog.fitbit.com*, 2015) <<https://blog.fitbit.com/how-megan-k-dropped-100-pounds-one-step-at-a-time/>> accessed 9 June 2016.

<sup>45</sup> Jeremy Heimans and Henry Timms, 'Understanding "New Power"' (*Harvard Business Review*, 2014) <<https://hbr.org/2014/12/understanding-new-power>>

the most experienced peoples to then continue with further explanation of the 2015 success startup leadership

Bill gates, on the one hand, believes that his employees where of great value for the success of the company, thus, the task delegations were a great tool and always used- participative leadership style-; On the contrary Steve Jobs, believed that he was the one and only person in charge of decision making, leaving aside his teams opinion- this is called an autocratic leadership style-. On the one hand, Gates, understood perfectly the business and had the capability of adaptation overtime. On the other hand, the innovative and risk taking attitude of Jobs is considered one of the great attributes that lead him to success.<sup>46</sup>

There is no mathematical formula to learn how to be great leader. Examples like Jobs and Gates depicts us how completely different style can lead to success. However there is one pattern that we will also find in this two leaders: the passion, the persistence and the effort in their work and the ability to figure out what is needed to be done at the right moment.

## 2-COMPANY CULTURE

As Alfred Lin- former COO, CFO and chairman of Zappos and actual partner in Sequoia Capital- explained in a Stanford University lecture, the company culture could be defined as the core values and actions in pursuit of a company a mission. To be more precise, the purpose of creating a company culture is the presence of it during the entire company's life either in a decision- making situation, creating a level of trust between people or even more retaining the right employees that fits with the values of the company.<sup>47</sup>

*New Set of values*<sup>48</sup>

OLD POWER VALUES	NEW POWER VALUES
Managerialism, institutionalism, representative governance	Informal, opt-in decision making; self-organization; networked governance
Exclusivity, competition, authority, resource consolidation	Open source collaboration, crowd wisdom, sharing
Discretion, confidentiality, separation between private and public spheres	Radical transparency
Professionalism, specialization	Do-it-ourselves, "maker culture"
Long-term affiliation and loyalty, less overall participation	Short-term, conditional affiliation; more overall participation

SOURCE JEREMY HEIMANS AND HENRY TIMMS

HBR.ORG

<sup>46</sup> A.J Agrawal, 'Jobs Or Gates: Differences In Leadership' (*Inc.com*, 2016) <<http://www.inc.com/aj-agrawal/jobs-or-gates-differences-in-leadership.html>>

<sup>47</sup> Sam Alteman, 'Lecture 10: Culture' (*Startupclass.samaltman.com*, 2014) <<http://startupclass.samaltman.com/courses/lec10>> accessed 9 June 2016.

<sup>48</sup> Jeremy Heimans and Henry Timms, 'Understanding "New Power"' (*Harvard Business Review*, 2014) <<https://hbr.org/2014/12/understanding-new-power>>

Given this, it's of major importance to explain the variables regarding company cultures:

## 2.1- DELEGATION OF DECISION-MAKING

The serial entrepreneur Jack Dorsey, double CEO of Twitter and Square, also is deep into the belief of corporate cultures, and with his experience as leader he has applied unconventional but great tactics. Once more, the delegation of decisions appear to be quite important for a smooth development of the company *"If I have to make a decision (...) we have an organizational failure."*<sup>49</sup> Dorsey says. Consequently, Dorsey made it clear through an email sent to the Square staff 2014 that he believed in the empowerment of the employees, leaving them their space to be creative and original in their own way, but also being responsible for it, in their own worlds *"If you have to use someone else's name or authority to get a point across (...) here is little merit to the point (you might not believe it yourself). If you believe in something to be correct, focus on showing your work to prove it"*<sup>50</sup>.

The Collins brothers, founders of Stripe point out how important the delegation of decision-making is when the organization gets larger, that's why they emphasise that to make this work properly the culture should be something stable over time as well as hiring people<sup>51</sup>.

## 2.2- EMPOWERING EMPLOYEES

When a company starts growing it tends to create a depersonalized environment where people are treated just like one more employee. However, this is not the aim of some tech startups. They believe in building a company culture where the employees feel that the success of the company is also a personal success, in other words the feeling of being deeply connected with the company's aims and goals. This is what Logan Green -founder and CEO of Lyft- believes. The way they manage to celebrate the achievements of their employees is through rewards, for instance a gift card for a restaurant or even better, flight tickets. This recognition is not only for the company's employees, but it is also extended to the drivers' telling their stories in the newsletter of the company's blog<sup>52</sup>.

Recognizing the good performance of employees is a pattern of this company's new culture era. Blake Irving, CEO of GoDaddy calls its customer-care agents the -"secret weapon" of the company- they are around 3,500 employees that are rewarded with a bonus based on the

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<sup>49</sup> Marla Tabaka, '5 Leadership Lessons From Twitter CEO Jack Dorsey' (*Inc.com*, 2015) <<http://www.inc.com/marla-tabaka/5-things-jack-dorsey-s-style-can-teach-you-about-being-a-better-leader.html>>

<sup>50</sup> Marla Tabaka, '5 Leadership Lessons From Twitter CEO Jack Dorsey' (*Inc.com*, 2015) <<http://www.inc.com/marla-tabaka/5-things-jack-dorsey-s-style-can-teach-you-about-being-a-better-leader.html>>

<sup>51</sup> Sam Alteman, 'Lecture 11: Hiring And Culture, Part II' (*Startupclass.samaltman.com*, 2014) <<http://startupclass.samaltman.com/courses/lec11/>>

<sup>52</sup> Leigh Buchanan, 'Lyft's CEO On Creating A Great Company Culture' (*Inc.com*, 2015) <<http://www.inc.com/magazine/201506/leigh-buchanan/logan-green-on-employee-recognition.html>>

customer's satisfaction and recommendations. But the rewards are not only limited to this, they have another unusual methods such as a cash machine with flying money where they have 15 seconds to grab as much as they can, in addition to NASCAR races and even dinner with the CEO.<sup>53</sup>

Building a company culture and keeping it overtime is a concern for more than one fast growing startup, Brian Chesky, CEO of Airbnb, is particularly obsessed with it, he even consulted Peter Thiel- entrepreneur, venture capitalist and well known for being the co-founder of PayPal- that without hesitation answered "*Don't fuck up the culture*"<sup>54</sup>. Right after he received this wise advice he released a brief letter to his employees: "If you break the culture, you break the machine that creates your products"<sup>55</sup>. In other words he motivates not only his employees to be fearless and 'crazy' but also dedicates time to spread the company's values, trying to instal his own passion.

Following this line of thinking, Andrew "Drew" Houston, CEO of Dropbox, gives a step further, with another side of the coin of the company culture. Defining the goals and values is essential for a company, and this is something Andrew learned thanks to the incubator Y Combinator. Overtime, with the growth of the company, decentralizing decision making it's important for the future of the company and it is the culture and the shared vision that makes this possible. In other words, the need of compromise from the employees to stick to the. As a consequence, he pays huge attention when hiring new people in the company "*We're very careful about the people we bring into the company. They're people who are obviously smart and intellectually curious, but they also have to be excited about thing we're doing (...) If you're not bringing in someone who can inspire the existing team, then you're probably bringing in the wrong person.*"<sup>56</sup>.

### 2.2.1 EMPLOYEES POINT OF VIEW

For this special subsection we are going to analyse which are the reviews that employees have done of the startups developed in the present work, based on Glassdoor reviews<sup>57</sup> as our source of information- the reviews are ranked from 1 to 5 stars-.

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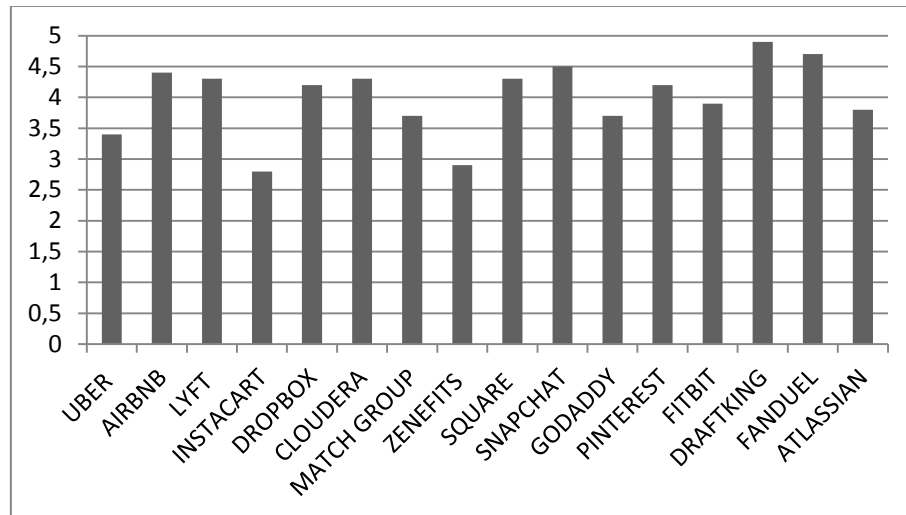
<sup>53</sup> Matt Rosoff, "Godaddy CEO Blake Irving Talks About The Company's 'Secret Weapon'" (<http://uk.businessinsider.com/GoDaddy-ceo-blake-irving-interview-2015-8?r=US&IR=T>) accessed 9 June 2016.

<sup>54</sup> Leigh Gallagher, 'The Education Of Airbnb'S Brian Chesky' (*Fortune*, 2015) <<http://fortune.com/brian-chesky-airbnb/>> accessed 9 June 2016.

<sup>55</sup> Leigh Gallagher, 'The Education Of Airbnb'S Brian Chesky' (*Fortune*, 2015) <<http://fortune.com/brian-chesky-airbnb/>> accessed 9 June 2016.

<sup>56</sup> "Drew Houston'S Morph From Hacker To Hyper-Growth CEO" (*Firstround.com*, 2016) <<http://firstround.com/review/Drew-Houstons-morph-from-hacker-to-hyper-growth-CEO/>>

<sup>57</sup> 'Companies & Reviews' (*Glassdoor*, 2016) <<https://www.glassdoor.com/Reviews/index.htm>>



Based on the chart, there some interesting things we can point out. Firstly, despite that last year Snapchat employees departures where highly notable between the high profile executives- Emily White (COO), Mike Randall (sales head), Sara Sperling (HR chief), Shannon Petranoff (former Paramount VP) and Jill Hazelbaker (VP of communications) - in addition with some layoffs- Simmi Singh (Chief talent officer) and Marcis Wiley (original content leader)-<sup>58</sup> the company has one of the uppermost reviews(4,5 stars). Secondly, and taking into consideration the above mentioned problems that Dropbox faced regarding diversity issues they have a good rate of 4,2 stars. Perhaps the decision of hiring a Chief of global diversity is a factor to take into account. Last but not least, the two rival fantasy sport contender provider-Draftkings and FanDuel- with 4, 9 and 4, 7 –stars- respectively are the best ones.

Overall, to sum up, of the sixteen startup companies studied in this work 56.26% have reviews above the 4 stars.

### 2.3- ADMIT YOUR WEAKNESS AND TAKE DESICIONS

It is well known that disrupting a traditional industry is not easy nor free, and probably most of those companies that apply this business model will face legal consequences. Having a great leader to tackle with these issues is of great importance. Everybody will agree that the best example for this is Uber; the traditional and established taxi industry saw its business threatened since Uber was released, and as a consequence they have been suing Uber several times. Travis Kalanick, has been able to deal with it, with great resilience, in his words *“as an entrepreneur, I*

<sup>58</sup> Austin Carr, 'What Snapchat's High-Profile Exec Departures Really Tell Us About CEO Evan Spiegel' (*Fast Company*, 2015) <<http://www.fastcompany.com/3052436/what-snapchats-high-profile-exec-departures-really-tell-us-about-ceo-evan-spiegel>>

*try to push the limits – pedal to the metal*<sup>59</sup>, in a manner saying he is not afraid of taking risk and confront big opponents.

Hard times come and that's is when people have to prove that they are real leaders. In 2011 when a San Francisco host denounced she suffered a robbery while she was not at home, on her blog she complained that Airbnb was slow to respond and their apology was unsatisfactory. This episode tested the skills of leadership of Brian Chesky, CEO of Airbnb. In the company's blog he admitted that they were not prepared to face this problem and right after that, with the help of the well-known venture capitalist Marc Andreessen- of Andreessen Horowitz- he announced a payment of \$50,000 for renter's protection. But at the end of the road there is always a lesson: in Chesky's worlds *"A consensus decision in a moment of crisis is very often going to be the middle of the road, and they're usually the worst decisions. Usually in a crisis you have to go left or right"*<sup>60</sup>. He demonstrated to be a great leader and earned a lot of respect within the company and peers.

GoDaddy, suffered a substantial change when Blake Irving was appointed to become CEO and new leader of the company. As the head of the company one of the first changes was trying to get away from the sexist reputation- the already explained controversial advertisements- the company burdened with for so many years. In this same line, in 2015 he acted as executive producer of "CODE: Debugging the Gender Gap", documentary which explains the lack of women and minorities in the tech labour market. When we said in the last chapter, that reputation is everything, or at least of major importance nowadays, GoDaddy gave us the reason why. They explained that some women that are business owners pressure Etsy- a peer to peer commerce website- to stop doing business with GoDaddy. To materialize the changes Irving hired Elissa Murphy, actual Chief Technical Officer (CTO) being the first woman to hold this position in the company and in joint effort creating Women in Technology network. Nevertheless, changes are not generated overnight, nowadays GoDaddy counts with 18% of women employees in technical jobs, only 1% over the rest of the Bay Area pack.<sup>61</sup>

Angelica Coleman an African-American former Dropbox employee jeopardized the company's values regarding respect of diversity when she left the company and start talking about some unconformable situations<sup>62</sup> she faced while working there. Clearly, this was quite controversial for the company's reputation and in response to this Andrew Houston –CEO- and

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<sup>59</sup> Megan Baker, 'Featured Business Leader – Travis Kalanick | AIB Official Blog' (Official Blog - Australian Institute of Business, 2015) <<http://aib.edu.au/blog/featured-business-leader-travis-kalanick/>>

<sup>60</sup> Richard Feloni, 'How An Airbnb Renter's Horror Story Taught The Company's CEO His Greatest Leadership Lesson' (Business Insider, 2015) <<http://uk.businessinsider.com/airbnb-ceo-brian-cheskys-greatest-leadership-lesson-2015-6?r=US&IR=T>>

<sup>61</sup> Kristen Bellstrom, 'Godaddy'S Latest Attempt To Escape Its Sexist Reputation' (Fortune, 2015) <<http://fortune.com/2015/03/23/GoDaddy-women-documentary/>>

<sup>62</sup> Salvador Rodriguez, 'Why Silicon Valley Is Failing Miserably At Diversity, And What Should Be Done About It' (International Business Times, 2015) <<http://www.ibtimes.com/why-silicon-valley-failing-miserably-diversity-what-should-be-done-about-it-1998144#.VZwytR5-xxA>>



Arash Ferdowsi –CTO- decided to hire Judith Williams, former Google's unconscious bias guru, and first Chief of global diversity Chief for Dropbox. Even though, they have a long way to go, from 2014 until 2015 the women in technical roles went from 13% to 19%. Moreover the representation of African Americans rose 2% (formerly 1%) and Hispanics increased from 3.5 % to 5%.<sup>63</sup>

## 2.4- FOSTER TRANSPARENCY

The empowerment offered in Square it's not just in the creativity and in the decision-making but also having access to documents such as the board of directors meeting or to obtain information about the company's strategy. This is a way to make the employees feel that they are important and they are not working just for "others" enabling employer-employee transparency.<sup>64</sup>

John and Patrick Collison, founders of Stripe, emphasized in an interview with Sam Altman- President of Y Combinator- on how important transparency was. Having access to the company's information enables everyone to believe in the goals and it also improves the productivity of the employees. Even though, as they said, when the company's growing this is not that simple, they use tools, such as emailing, so everyone is in the same page of the status of Stipe.<sup>65</sup>

## 3- CHIEF EXECUTIVE OFFICER

The most successful tech- companies have shown us how important founders are for them. The best example for this is Steve Jobs returning to Apple in 1996. When he left, the professional CEO who proceeded him, was Gil Amelio, who decided that the best strategy for competing with Microsoft was the creation of Mac cloners who would provide a commodity hardware that could compete against Microsoft while Apple kept focus on the well-known Apple's OS. Unfortunately the strategy didn't work, and when Jobs returned all the decision made by Amelio were reversed. On the contrary, he implemented a vertical strategy and to the known hardware and operating system he added applications such as iLife and devices (iPod). Undoubtedly, the shift in Apple's innovation and successful story was thanks to a courageous decision of the founder.<sup>66</sup>

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<sup>63</sup> Jessica Guynn, 'Dropbox CEO, New Diversity Chief Address Goals With More 'Firepower' (USA TODAY, 2016) <<http://www.usatoday.com/story/tech/news/2016/01/28/dropbox-diversity-drew-houston-judith-williams/79175688/>>

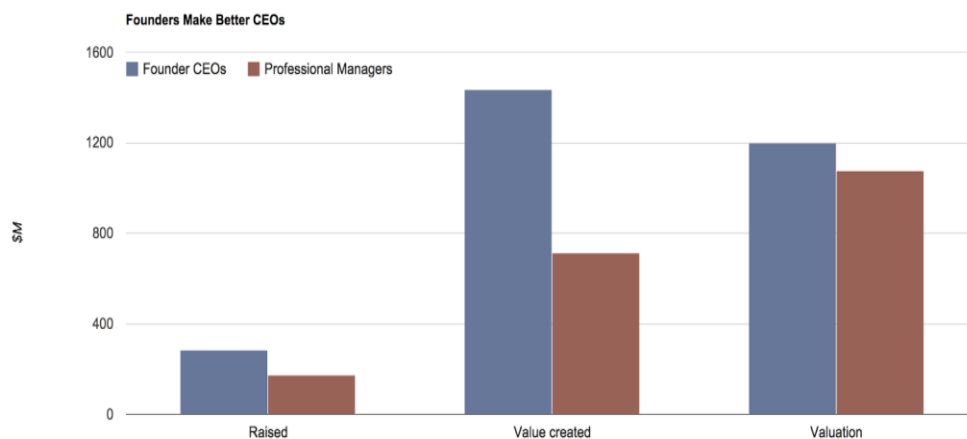
<sup>64</sup> Jessica Guynn, 'Dropbox CEO, New Diversity Chief Address Goals With More 'Firepower' (USA TODAY, 2016) <<http://www.usatoday.com/story/tech/news/2016/01/28/dropbox-diversity-drew-houston-judith-williams/79175688/>>

<sup>65</sup> Sam Altman, 'Lecture 11: Hiring And Culture, Part II' (Startupclass.samaltman.com, 2014) <<http://startupclass.samaltman.com/courses/lec11/>>

<sup>66</sup> Ben Horowitz, 'Why We Prefer Founding Ceos – Andreessen Horowitz' (AI6z.com, 2010) <<http://a16z.com/2010/04/28/why-we-prefer-founding-ceos/>> accessed 9 June 2016.

These are the kind of stories that inspire Marc Andreessen, partner of the venture capitalist firm Andreessen-Horowitz, to describe their firm preference for founding CEOs. The truth is as that to stay competitive in the market, tech startups have the constant need to innovate; otherwise, they enter into of risk of extinction, with the possibility of being categorized as dinosaurs. The product-driven philosophy is one of the characteristics of these entrepreneurial companies, as we had already explained in the previous chapter, and founding CEOs play a key role in finding product cycles. And as Ben Horowitz described based on their experience, and backed up by statistics, “teaching a founding CEO how to maximize the product cycle is easier than teaching the professional CEO how to find the new product cycle.”<sup>67</sup>. It’s important to take a look in the ‘Fast Company 2015 list’ where some of the startups chosen for this thesis belong such as Uber, Snapchat and Airbnb, among others. The statistics depict us, that 80% of founders still active as CEO, Chairman or Director. Moreover, 76% of the companies remain privately held and lastly 67 % of the companies have control-enhancing structures enabling the founders to run them as if they were private<sup>68</sup>.

Figure 1: rising money and valuation<sup>69</sup>



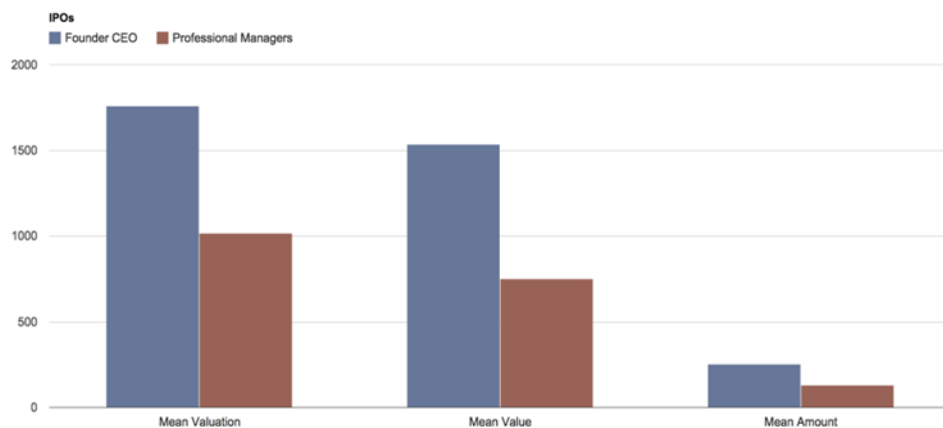
It is evident that the performance of founding CEOs is better in all the areas shown, comparing with Professional Managers. Meanwhile, raising money and valuation has a slightly difference of approx. 1 million dollars, value created shows by far the biggest difference, doubling they money achieved by Professional CEOs.

<sup>67</sup> Ben Horowitz, 'Why We Prefer Founding Ceos – Andreessen Horowitz' (A16z.com, 2010) <<http://a16z.com/2010/04/28/why-we-prefer-founding-ceos/>> accessed 9 June 2016.

<sup>68</sup> Vermeulen, Erik P.M. “New Metrics for Corporate Governance: Shifting Strategies of 'Activist' Investors in an Aging IPO Market” Lex Research Topics in Corporate Law & Economics Working Paper No. 2015-1 (2015) page 10. Available at: <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2576510&download=yes](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2576510&download=yes)>

<sup>69</sup> Ben Narasin and Michael Abbott, 'The Importance Of Founders' (TechCrunch, 2015) <<http://techcrunch.com/2015/05/11/the-importance-of-founders/>>



*Figure 2: founders generate more value in IPOs<sup>70</sup>*

The CEO founder pattern is the one that we find in the majority of the tech startups that remain private held. It's important to highlight that these companies are still growing, which means that they already have several venture capitalist (VCs) funding rounds. Some go from 4 founding rounds (Zenefits) until 13 (Uber).

Co-founder, Parker Conrad, resigned as CEO of Zenefits and Director of the Company, due to the fact that the revenue projections under contract of \$10 million hadn't been fulfilled, complicating the relationship with the VCs because this was one of the reasons they were tripping over themselves to invest in the company. In addition to this, there were facing resistances with the regulatory agency. Consequently, in September 2015, one of their biggest investors, Fidelity, drop the value of its investment almost to the half. Conrad, was replace by and insider- executive and investor, the former Chief Operating Officer (COO) of Zenefits and also of PayPal, David Sacks, and with it the addition of more VCs to the board such as Peter Thiel, co-founder of PayPal, Antonio Gracias, founder of Valor Equity Partners, Bill McGlashan, founder of TPG Growth, and Lars Dalgaard from Andreessen Horowitz.<sup>71</sup>

As regards outsiders CEOs, an exceptional case is the one of GoDaddy; the COO of Yahoo came to replace, Bob Parson- founder and former CEO-. However he still active as Executive Chairman of the company. The shift of CEO was not only because of some controversial stories attached to Parson<sup>72</sup> but also, reinventing themselves focused on improving their product and services offered to customers, and creating a new revenue streams.<sup>73</sup> Moreover, it important to take a look in the cases where the founder and CEO decides to take a

<sup>70</sup> Ben Narasin and Michael Abbott, 'The Importance Of Founders' (*TechCrunch*, 2015) <<http://techcrunch.com/2015/05/11/the-importance-of-founders/>>

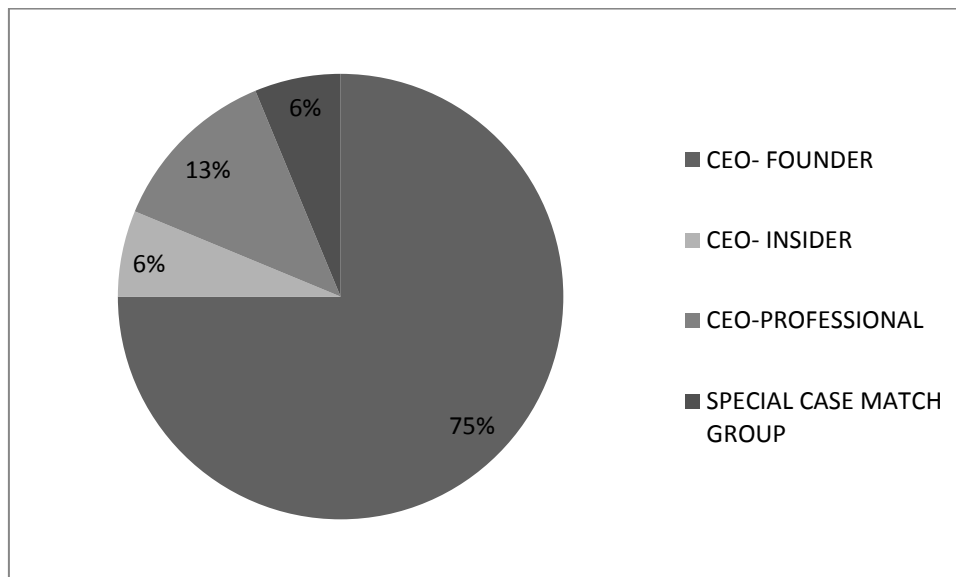
<sup>71</sup> Julie Bort, 'The CEO Of One Of Silicon Valley's Hottest Startups Has Suddenly Resigned' (*Business Insider*, 2016) <<http://uk.businessinsider.com/parker-conrad-is-out-as-zenefits-ceo-and-david-sacks-takes-over-2016-2?r=US&IR=T>>

<sup>72</sup> Kelly Burgess, 'Godaddy.Com CEO Bob Parsons Under Fire For Zimbabwe Elephant-Hunting Video' (*Latimesblogs.latimes.com*, 2011) <<http://latimesblogs.latimes.com/outposts/2011/03/GoDaddycom-ceo-bob-parsons-elephant-hunting-video-zimbabwe.html>>

<sup>73</sup> Ingrid Lunden, 'Godaddy Doubles Down On Product With A New CEO: Ex-Yahoo Product Chief Blake Irving' (*TechCrunch*, 2012) <<http://techcrunch.com/2012/12/11/GoDaddy-has-a-new-ceo-ex-yahoo-blake-irving/>>

step down and recognized that for the success of the business and to take the company to the next level it's necessary to hire a professional CEO (outsider). This is the case of Cloudera, where Mike Olsen left his place to hire Tom Reilly, former CEO of ArcSight, and the one who lead the company on going public and after that selling it to HP with 24% premium for shareholders.<sup>74</sup> Nowadays, Mike Olsen's, current role in the company is as Chief Strategy Officer (CSO) and Chairman.

Meanwhile the company started growing, the job of the founder shift overtime, hence, it's not just being innovative with a great entrepreneurial spirit, if not focusing on new challenges such as standard procedures and managing much more employees. As a consequence, it is true, that not every founding CEO is prepared to carry with those responsibilities and this is when the transition process for a new CEO starts, enabling the company keep on growing. And to exemplify, Jack Dorsey, double CEO of Twitter and Square, considering that a company have multiple founding moments he said *"Your transition process should bring the new CEO in as a co-founder of the company, not as an "adult supervisor"*<sup>75</sup>



\* As the name says this company is a group of different online dating sites-including Tinder, OkCupid and Match.com- subsidiary of IAC/InterActiveCorp. It's called a special case because it's not just a unique company if not an ensemble of them. However it's important to highlight three facts. The CEO of the Match Group belongs to the professional's ones-Greg Blatt. However Sean Rad is the actual CEO-founder of Tinder and as a third fact Sam Yagan, co-founder of OkCupid is the actual CEO of Match.com. In sum, even this group belongs to a huge corporation founders, still being important.

Lastly, another interesting data to point out, is about the jointly role of chairman and CEO. While it is true that this model could be useful to avoid disagreements, and ambiguous

<sup>74</sup> Julie Bort, 'Cloudera Hints At IPO By Hiring A New CEO Who Took His Last Company Public Then Sold It For \$1.5 Billion' (*Business Insider*, 2013) <<http://www.businessinsider.com/cloudera-hints-ipo-with-tom-reilly-hire-2013-6?IR=T>>

<sup>75</sup> Reid Hoffman, 'If, Why, And How Founders Should Hire A "Professional" CEO - Reid Hoffman' (*Reid Hoffman*, 2013) <<http://reidhoffman.org/if-why-and-how-founders-should-hire-a-professional-ceo/>>

leadership matters; however, the innovative companies that we analyse prefer the model of separation of CEO and Chairman, and in some cases leave the last place to the former CEOs and founder<sup>76</sup> (Cloudera). But exceptions always exist, that's why we found the double role of CEO and Chairman in the case of Snapchat, Fitbit and Match Group.

#### **4-BOARD OF DIRECTORS**

In this subsection we will analyse the composition of the Board of Directors (BoD) in the tech innovative companies and the role of VCs in it.

Board of Directors can play an important role in the creation of new products and processes. Particularly, tech startups from 2015 analysed in the present thesis show us that the co-founders are almost always in the board of director, as common directors or chairman -most common when the startup has at least two founders; for instance Uber with co-founder Garret Camp, Lyft with co-founder John Zimmer or Stripe with co-founder John Collison-.

Venture Capitalist has not always had a good reputation among entrepreneurs, and the reason is that they feel that they only invest, but they don't really care about the business itself and they will never get their "hands dirty". That's why in the first steps a startups takes, entrepreneurs prefer angel investors or incubators. These changes over time when startups are in the need of larger investment and VCs are the source for this. In addition it's important to highlight that not all venture capitalists have this attitude towards startups; there are also the ones that are able to guide very early start-up stages, giving them the opportunity to follow up their investment -Collaborative VCs-.

It is noticeable that VCs play an important role in tech startups' Board of Directors. As far as the successful startups analysed, the number of venture capitalist found in the board of directors goes from two<sup>77</sup> to seven<sup>78</sup>. Having some of them representation in different companies such as: Benchmark-Uber and Snapchat-, Sequoia Capital-Stripe, Square, Instacart and Airbnb-, Andreessen Horowitz- Lyft, Instacart and Zenefits-, Kleiner Perkins Coufield & Byers- Square and Cloudera-, Accel- Match Group and Cloudera and GGV Capital- Square and Draftkingss-. For those companies that recently went public, the explanation of VCs position in the BoD is due to the lock-up period that prevented them from exiting the company. Another reason for the

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<sup>76</sup> Erik P. M. Vermeulen, 'New Metrics For Corporate Governance: Shifting Strategies Of 'Activist' Investors In An Aging IPO Market' (2015) 2015-1 Page 16 SSRN Electronic Journal <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2576510&download=yes](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2576510&download=yes)> accessed 9 June 2016.

<sup>77</sup> Fitbit Inc., 'Fitbit Inc.: Board Of Directors - Businessweek' (*Bloomberg.com*, 2016) <<http://www.bloomberg.com/research/stocks/private/board.asp?privcapId=49068649>>

<sup>78</sup> Square's Board of Directors. Available at: <https://www.crunchbase.com/organization/square/advisors>

high number of VCs in the boards of directors, is that the innovative strategies are “viewed as successful healthy again model in the life cycle of listed companies”<sup>79</sup>.

It is interesting to point out an example of VCs initiative as board of director members and in this case it won't sound strange, because we are talking about Kleiner Perkins Coufield & Byers, actual members of the BoD of Square and Cloudera. We are talking about iFund in which this same Venture Capitalist, in 2008, decided to invest 100 million dollars in partnership with Apple. The investment was to fund market-changing ideas and products that extended the revolutionary iPhone and iPod touch platform. In conclusion, iFund invested in the creation of applications, services and components. This platform gave the entrepreneurs and companies a great opportunity to “(...) emerge as this new platform evolves, and the iFund will empower them to realize their full potential.”<sup>80</sup>

### III-THE NEW PRINCIPLES

The purpose of this chapter is to make a summary of the above research, so we clear up and make an easy reading of which are the “New Principles” we found in the successful tech companies in 2015.

What characterized the tech and innovative era, without any doubt, is the tendency of having a UNIQUE BUSINESS MODEL, and the reason of this, is because this new business doesn't belong to any previous business model or in some cases the existing traditional business models are disrupted to build a more efficient and consumer friendly model. Hereafter there will be covered briefly

1-SHARING ECONOMY BUSINESS OR PEER-TO-PEER MARKETS chosen model by more than one tech company such as Uber, Airbnb, Lyft and Instacart among others. This model emerged as alternative to already well-established industries where consumers share good and/or services, in other words this innovative business models came to disrupt the classic ones. Of the examples analysed in this work the disruption could be seen primarily in the taxi, hotel, and insurance industries. It must be recognized, that for his business model to be successful it's necessary to build trust between strangers and the key socio-economic element for this is the REPUTATION AND REFERRAL PROGRAM. The aim of it is to create a measure to indicate how many people trust you in the same community –passenger/driver, guest/host- or to recommend people to be part of a community.

2-The other great example of an innovative business model is the LEAN STARTUP METHOD, which was designed with the purpose of maximizing the acceleration growth

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<sup>79</sup> Erik P. M. Vermeulen, 'New Metrics For Corporate Governance: Shifting Strategies Of 'Activist' Investors In An Aging IPO Market' (2015) 2015-1 page 17 SSRN Electronic Journal <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2576510&download=yes](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2576510&download=yes)> accessed 9 June 2016.

<sup>80</sup> 'iFund | Crunchbase' (Crunchbase.com, 2008) <<https://www.crunchbase.com/organization/ifund#/entity>> accessed 9 June 2016.

process of a startup company. The main idea of this method is not to present a finish product to the market, if not, on the contrary, build the product while measuring consumers responses, if the response is negative you have to keep on pivoting, if it's positive focusing on building the product.

3-THE HUB AND SPOKE BUSINESS MODEL, typically used in the SAAS model, it's define by having a core product, where you have almost no profit margin-hub-. However using the hub it's easier to enter to the business industry offering a product for a lower price or even for free in comparison to your competitors. The revenue of this model comes with the so called "Spoke" which has a high profit margin-Zenefits HR software (Hub) gain money every time someone buy for instance (Spoke), health insurance through their platform or in the case of Tinder-subsiary of Match Group they offer a free dating app (Hub) but the tool of unlimited swipes has a fee (Spoke)

Not everything is about business models, MARKETING STRATEGY and with it advertisements and commercials, are of quite importance for the success of the company. What its true, is that in this tech era the marketing strategy in most cases, is developed differently as it was for instance with the traditional tv-ads. We will find those companies that prefer not to spend too much money in ads but they use other strategies-such as Dropbox with the referral program, or those that decide to use advertisements in their platform but they manage the way for being welcoming to the user and fit within the context of it- Snapchat and Pinterest-. In other words, what is important about this, is that consumers get the right idea of what the service or product offered is, feel identified with it and in the last stage start using it. The majority of the tech companies analysed in this work used for this purpose the STORYTELLING strategy, the goal of it is create a sense of community, where people can share not only their great moments-easier part- if not profounder level of humanity that after all its what it makes all equal as humans. It's that feeling what it makes us to feel identified to strangers telling their own story life. Pointing out people's needs and giving them a way to solve them, is the way Storytelling works.

Lastly, all the principle described above is within another governing principle this is the so called NEW POWER STRUCTURES. The sense corporate governance shifted and the importance of leadership are the main characteristics of the structure, and with it the new idea where " *People expect to share, shape, fund, produce, and co-own companies, products, ideas, governments, and even art. They feel an inalienable right to participate and value in formal decision-making, collaboration, do-it-yourself ideals, transparency, and informal affiliation over long-term allegiance.*"<sup>81</sup> In simple words, the creation of a company culture. For this, it is necessary to clarify that regarding the sixteen tech companies analysed in the present work, 75%

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<sup>81</sup>"The Global Startup Ecosystem Ranking 2015' (*Startup-ecosystem.compass.co*, 2015) Page 14 <<http://startup-ecosystem.compass.co/ser2015/>> accessed 9 June 2016.

have CEO-founder, 13% CEO professionals, and sharing the position with 6 % CEO-insider and the special case of the Match Group. This show us how important the role of the founders still are as leaders in the companies, and even though in some cases a few of them are not in this position anymore, they still being part of the organization head or as part of the board of directors. Regarding, board of directors we can point out that the role of venture capitalist is of huge significance in the majority of the companies.

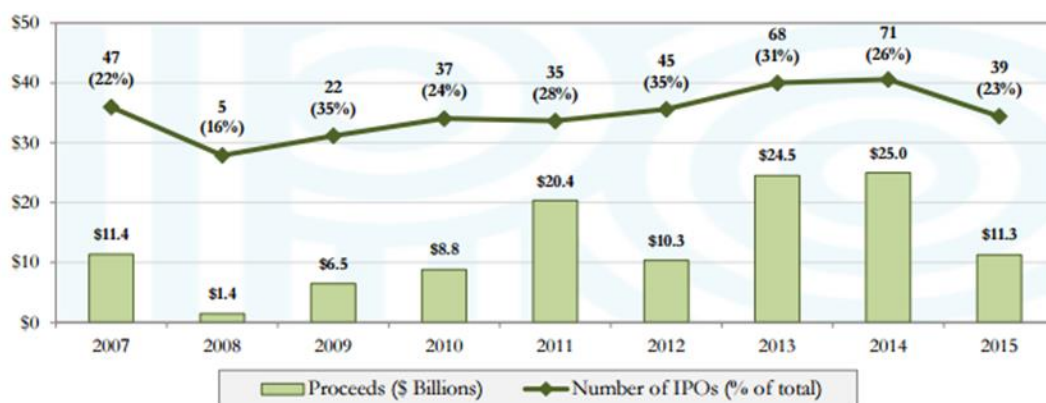
## IV-A SIMPLE TEST

After doing all the already developed research it is of major importance to find if the new principles and patterns of the companies analysed are in fact related to the success in the returns after-the first day of- going public. Even though 2015 was not successful regarding tech startups IPO, we are going to test some of the few that went public, which have venture capitalist and private equity backed, and afterwards matching the already explained principles with each company.

### 1-PRIVATE EQUITY-BACKED IPO'S

Private equity-backed IPO were far lower than the the previous year, meanwhile in 2014, 71 companies went public and raised \$25 billion dollars, in 2015, 39 private equity-backed companies went public raising less than half of the previous year-11.3 billion-.LBOs-backed companies was the lowest since 2009. GoDaddy, the domain registrar company lead the list of the 14 LBO with 60% of return.<sup>82</sup>

*US IPO Activity- Private Equity-Backed IPO's chart.*<sup>83</sup>



<sup>82</sup> 'US IPO Market -2015 Annual Review' (Renaissancecapital.com, 2016) Page 11 <[http://www.renaissancecapital.com/ipohome/review/2015usreview.pdf?inf\\_contact\\_key=784f394ccc7a0b435271802de5389998c914cc8192870e71f2140575fabdd2cb](http://www.renaissancecapital.com/ipohome/review/2015usreview.pdf?inf_contact_key=784f394ccc7a0b435271802de5389998c914cc8192870e71f2140575fabdd2cb)>.

<sup>83</sup> 'US IPO Market -2015 Annual Review' (Renaissancecapital.com, 2016) Page 11 <[http://www.renaissancecapital.com/ipohome/review/2015usreview.pdf?inf\\_contact\\_key=784f394ccc7a0b435271802de5389998c914cc8192870e71f2140575fabdd2cb](http://www.renaissancecapital.com/ipohome/review/2015usreview.pdf?inf_contact_key=784f394ccc7a0b435271802de5389998c914cc8192870e71f2140575fabdd2cb)>.

### 1.1-GODADDY

GoDaddy (GDDY) went public during the first quarter of the year 2015- 1<sup>st</sup> of April-. However, it's important to highlight that in the form S-1 filed to the Security and Exchange Commission (SEC), the company clarified that they offered two types of shares: Class A common stock-not offered to the public market- and Class B common stock, each with one vote per share. In addition to this, they anticipate that certain members of the Board of Directors- such as the former CEO and founder Bob Parsons- will hold mainly most of the issued and outstanding Class B stock. As a result of this, despite it being a public company, they will be in control of any action that requires the approval of the stockholders- election goes the members of the BOD, adoptions or amendments of the certificate of incorporation and bylaws, among others-<sup>84</sup>.

Returning to the key theme, the company raised \$260 million with its IPO that priced March 31 and started trading April 1. However, the company can't be classified as VC-backed due to the fact that it's owned by private equity (Kohlberg Kravis Roberts and Silver Lake Partners) since December 2011.<sup>85</sup> Even though the year's leveraged buyouts (LBOs) were the lowest since 2009, they could manage a 3% of gain, led by GoDaddy with + 60%. Given this, we can conclude that the domain registrar company did well despite being one of worst years of private equity backed for tech companies.<sup>86</sup>

Which are the principles that match with GoDaddy? Despite being one of few companies with a professional CEO, in my opinion, the arrival of Blake Irving to the company is one of the reasons company's success. As the company leader, he decided to move away from the sexist reputation the company saw during Parsons Leadership. That is why, one of the first measures taken by the actual CEO was to change the marketing strategy, because even though the advertisements were striking for the audience, there was not a real connection among them and the service offered in addition to the bad reputation that they carried to the company.

Moreover, the other noticeable principle that belongs to the tech era and to the unique business model pattern is the importance of building a user-friendly environment. As a consequence of this, firstly they presented more user friendly tools in their platform, in addition to this it that appears the company's culture principle is killing two birds with one stone: employees are being motivated-with bonus, money or events- to generate a good work environment including a personalized customer service and on the other side of the coin, having satisfied customers.

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<sup>84</sup> Inc. GoDaddy, 'Form S-1' (Sec.gov, 2014)  
<<https://www.sec.gov/Archives/edgar/data/1609711/000119312514230425/d728713ds1.htm>>

<sup>85</sup> Brian Deagon, 'Venture-Capital-Backed Ipos In Q1 Hit Two-Year Low' (*Investor's Business Daily*, 2015)  
<<http://www.investors.com/news/technology/venture-capital-backed-initial-public-offerings-in-first-quarter/>>

<sup>86</sup> 'US IPO Market -2015 Annual Review' (*Renaissancecapital.com*, 2016)  
<[http://www.renaissancecapital.com/ipohome/review/2015usreview.pdf?inf\\_contact\\_key=784f394ccc7a0b435271802de5389998c914cc8192870e71f2140575fabdd2cb](http://www.renaissancecapital.com/ipohome/review/2015usreview.pdf?inf_contact_key=784f394ccc7a0b435271802de5389998c914cc8192870e71f2140575fabdd2cb)> accessed 9 June 2016.



However, the prime principle is the marketing strategy of storytelling, pattern in the majority of the tech-companies, it's an easier and more affordable way of promoting your service through the same users, which are normal people with business project or dreams, which the platform is allows them to fulfil them<sup>87</sup>.

## 1.2-MATCH GROUP

The Match Group (MTCH) went public on November 19<sup>th</sup>, 2015 and as an emerging growing company (EGC) characteristic -their parent company IAC- still holds control of it with more than 50% of the voting rights –Class B shares with 10 votes each-<sup>88</sup>. Regarding, public investor, - the parent company- figured to give them a way to bet in the combined of online-dating instead of holding indirectly the shares of IAC<sup>89</sup>. Even though they raised \$400 million at the IPO, it was much lower than expected. However they still had a positive return of 22% from the IPO price.<sup>90</sup>

Given this, now we have to test which are the principles that match with the company, for this we have to take into account that the Match Group, is the parent company of several dating sites such as Tinder, OkCupid and Match.com.

Firstly the Hub and Spoke business model is present in Tinder, since the company offer a free dating app. However if you want to include some special features to the app such as unlimited swipes or undo accidental swipes and expanding the dating radius, among others, you have to pay a fee for it, this spoke is called Tinder Plus<sup>91</sup>.

Secondly, Storytelling- as already explained- is also present and OkCupid and probably is one of the best examples for this matter, the company's blog not only provides the users the possibility to upload their success love stories, but also that with the collected data of user experiences they developed different stories such as which is the best question for a first date. As the blog emphasize, there are simple stories that the users are willing to hear because they care about those issues<sup>92</sup>.

Another principle present in the online dating company-as explained above- is the experimentation aspect of the Lean startup Methodology. The usage of the A/B testing method

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<sup>87</sup> 'Godaddy Inc. - About Us - Our Customers' (*GoDaddy*, 2016) <<https://aboutus.GoDaddy.net/about-us/our-customers/default.aspx>>

<sup>88</sup> Maria Armental and Georgia Wells, 'Match Group, Parent Of Tinder, Files For IPO' (*WSJ*, 2015) <<http://www.wsj.com/articles/match-group-files-for-ipo-1445032992>>

<sup>89</sup> Alex Barinka, 'IAC'S Match Group Gains After Raising \$400 Million In IPO' (*Bloomberg.com*, 2015) <<http://www.bloomberg.com/news/articles/2015-11-19/diller-s-match-group-raises-400-million-in-online-dating-ipo>>

<sup>90</sup> Maya Kosoff, '13 Tech Ipos Compared: How Much A \$10,000 Investment Would Be Worth Today' (*Business Insider*, 2015) <<http://uk.businessinsider.com/tech-ipos-compared-2015-11?r=US&IR=T>>

<sup>91</sup> Sarah Perez, 'Tinder Plus, The Paid Version Featuring An Undo Button And More, Arrives In U.S. Next Month' (*TechCrunch*, 2015) <<http://techcrunch.com/2015/02/02/tinder-plus-the-paid-version-featuring-an-undo-button-and-more-arrives-in-u-s-next-month/>>

<sup>92</sup> Brian Honigman, 'The 4 Elements Of Better Branding Your Startup In 2015' (*Entrepreneur*, 2015) <<https://www.entrepreneur.com/article/241940>> accessed 9 June 2016.



by the company was quite controversial<sup>93</sup> - we have to keep in mind that we are treating with human beings feelings-, the original goal was to understand if the product presented to the users is accepted by a group or by consumers in general with. In other words, to make the product remain relevant in the market. However, the company mislead and manipulated the post upload by the users, and as aggravating factor, with the lack of consent of them to perform the A/B testing method with. As a result, we are in front of an ethical problem involving a complete lack of respect for OkCupid's customers.<sup>94</sup>

As already stated in the tech startup era leadership skills are building a company culture that are of great importance. Just before Match group went public, Tinder's founder and CEO, Sean Rad, emitted some unfortunate statements in a London Evening Standard interview<sup>95</sup> in which he boasted about his sexual conquests and mixing-up the meaning of sodomy. Related to this declarations or not, the IPO opening price was much lower than expected even though the closing price was 22% higher. Certainly Tinder's CEO declarations cast doubt in the company's leadership skill, even more if it's right before going public and all investors are expectant to this. As a result Tinder's parent-the Match Group-distanced itself from Rad's misfortune phrases with a note addressed to the SEC<sup>96</sup>

## 2-VENTURE CAPITAL-BACKED IPO'S

2015 wasn't great for Tech Companies IPO and venture capital backed was not an exception, rising \$8.9 billion with 85 IPO. The result is far away from the \$35.3 billion raised in 2014 where 126 companies went public. The truth is that compared to 2014 there were 19 less biotech IPOs in addition to 18 fewer tech companies with VC funding. The tech sector faced the weakest year with 19 IPOs and just raising \$2.6 billion dollars. The largest Venture Capital-backed IPO was tech company of fitness devices, Fitbit, which raised \$841 million in Q2, in addition to Atlassian that in Q4 raised \$ 462 million.<sup>97</sup>

<sup>93</sup> Christian Rudder, 'We Experiment On Human Beings!' (OkTrends, 2014) <<http://blog.OkCupid.com/index.php/we-experiment-on-human-beings/>> accessed 9 June 2016.

<sup>94</sup> Joseph Farrell, 'Why Okcupid'S 'Experiments' Were Worse Than Facebook'S' (*The Huffington Post*, 2014) <[http://www.huffingtonpost.com/joseph-farrell/why-okcupids-experiments-\\_b\\_5655217.html](http://www.huffingtonpost.com/joseph-farrell/why-okcupids-experiments-_b_5655217.html)>

<sup>95</sup> Charlotte Edwardes, 'Tinder? I'm An Addict, Says Hook-Up App's Co-Creator And CEO Sean Rad' (*Evening Standard*, 2015) <<http://www.standard.co.uk/lifestyle/london-life/tinder-im-an-addict-says-hookup-apps-cocreator-and-ceo-sean-rad-a3117181.html>>

<sup>96</sup> Drew Harwell, 'Sodomy' And Scandal: Tinder'S Thoroughly Embarrassing Stock-Market Debut' (*Washington Post*, 2015) <<https://www.washingtonpost.com/news/the-switch/wp/2015/11/19/sodomy-and-scandal-tinders-thoroughly-embarrassing-stock-market-debut/>>

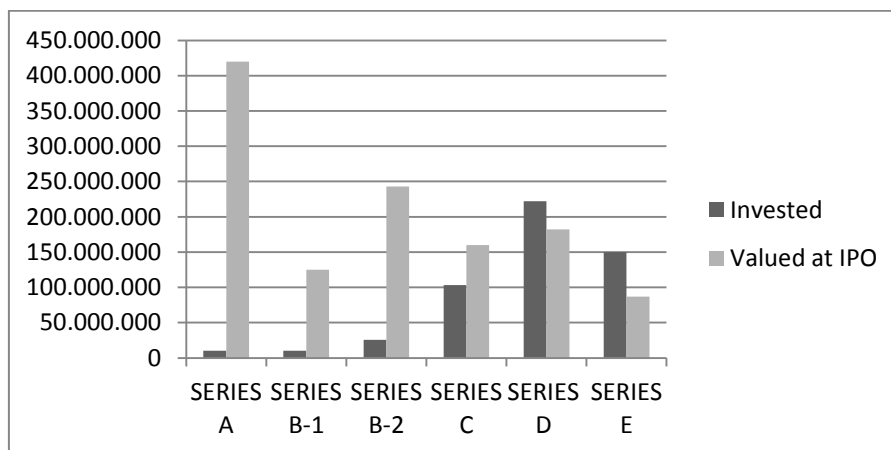
<sup>97</sup> US IPO Market -2015 Annual Review' (*Renaissancecapital.com*, 2016) Page 11 <[http://www.renaissancecapital.com/ipohome/review/2015usreview.pdf?inf\\_contact\\_key=784f394ccc7a0b435271802de5389998c914cc8192870e71f2140575fabdd2cb](http://www.renaissancecapital.com/ipohome/review/2015usreview.pdf?inf_contact_key=784f394ccc7a0b435271802de5389998c914cc8192870e71f2140575fabdd2cb)>

US IPO Activity- Venture Capital-Backed IPO's chart<sup>98</sup>:

## 2.1-SQUARE INC

(SQ) In the form S-1 filed with the SEC the startup offered two classes of shares: Class A and Class B common stock, however the existing stockholders would continue to hold all issued and outstanding Class B shares -99.1%, and consequently stayed with the control of the company. The main holders are Jack Dorsey, founder and CEO, with 21.9% outstanding shares followed by James McKelvey, co-founder, with 8.4% and lastly a Venture Capitalist firm, member of the Board of Directors with 15.5%

The venture capital-backed company return after the IPO were positive for the majority their investors. The follow graph will show us how much money the Square investors made in different funding rounds<sup>99</sup>:



To understand this graph firstly, we have to take into account that the per- share value was \$9 at the time of the IPO. Having said this now we can analyse the above graph. The IPO returns seem to be very positive for those early stages, those who bet in the Series A round after the IPO made a total return of 4,061%, while Series B-1 and B-2 made 1,150% and 844%

<sup>98</sup> US IPO Market -2015 Annual Review' (Renaissancecapital.com, 2016) Page 12 <[http://www.renaissancecapital.com/ipohome/review/2015usreview.pdf?inf\\_contact\\_key=784f394ccc7a0b435271802de5389998c914cc8192870e71f2140575fabdd2cb](http://www.renaissancecapital.com/ipohome/review/2015usreview.pdf?inf_contact_key=784f394ccc7a0b435271802de5389998c914cc8192870e71f2140575fabdd2cb)>

<sup>99</sup> Matt Levine, 'Square Turns The Corner' (Bloomberg View, 2015) <<https://www.bloomberg.com/view/articles/2015-11-19/square-turns-the-corner-after-a-pretty-shaky-ipo>> accessed 9 June 2016.

respectively and those who invested in Series C got 55%. Until here everything was positive news for investors in the unicorn company. However, for those Series D investors the return has a negative number (18%) even the price of the share at \$ 11.01 is far below to the Series E round-\$ 15.46-, the last ones negotiated a “ratchet” where they ensured to receive 20% returns in the IPO, this means in the case that their company’s shares value was less than \$ 18.55 –it was the case- Square had to compensate with another 10.3 million of shares.<sup>100</sup>

Overall, the IPO initial price was \$9 dollars, the opening price was at \$11.2, the highest peak was \$14.75 and the closing price was \$13.07<sup>101</sup> dollars, given this we arrive to the conclusion, of a positive 45% return on the first day of IPO. Even though we can’t qualify Squares IPO as a failure the valuation previous IPO –Series E rounds- was at \$6 billion while after it, it suffer a 42% of undercut<sup>102</sup>

Following the above mentioned theme, the disruptive startup of the well-established credit card payment system brings with it a distinctive business model. The company offer a free card reader-hardware- and the app-software- that requires no initial fee, which is easy to use for small business owners. The integrated system offered not only allows to swipes a credit card but also gives the business owner records that they never had before. Square’s revenue is based on a fee the company charge every time that the owner of the business swipes a credit/debit card.<sup>103</sup>

In the early stage of the company they didn’t count sales persons with due to the fact that “The product sells itself”<sup>104</sup> as Dorsey says. That’s why storytelling was of great support, as explained above (Chapter I.2.3), the strategy applied consist in different videos of around two minutes where the small business owners are the ones who tell their business story and how positive it was to implement the hardware/software offered by Square. In other words, where people lack time, a short video where you can produce an impact in the audience seems to be an effective way of branding your product.<sup>105</sup>

Last but not least, the serial entrepreneur CEO and co- founder of Square consider corporate culture essential for the development of the company. We have to take into account that Jack Dorsey is also CEO of the well-known social network Twitter. That is why the first aspect we are going to analyse is about decision- making. As CEO, Dorsey explains that his role

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<sup>100</sup> Inc Square, 'S-1/A' (Sec.gov, 2015) Page F-34  
<[http://www.sec.gov/Archives/edgar/data/1512673/000119312515378578/d937622ds1a.htm#fin937622\\_31](http://www.sec.gov/Archives/edgar/data/1512673/000119312515378578/d937622ds1a.htm#fin937622_31)>

<sup>101</sup> Inc. Square, 'NYSE' (Nyse.com, 2016) <<https://www.nyse.com/quote/XNYS:SQ>>.

<sup>102</sup> Heather Somerville and Rachel Chitra, 'Dorsey's Square Jumps In Market Debut, Offering Hope To Tech Startups' (Reuters, 2015) <<http://www.reuters.com/article/us-square-us-ipo-idUSKCN0T824Z20151119>> accessed 9 June 2016.

<sup>103</sup> Everette Taylor, 'Square - How Did Square Grow So Quickly?' (GrowthHackers, 2014) <<https://growthhackers.com/growth-studies/square>>

<sup>104</sup> Lapowsky, 'The Man Who Made The Cash Register Obsolete' (Inc.com, 2013) <<http://www.inc.com/audacious-companies/issie-lapowsky/square.html>>

<sup>105</sup> 'Square Started Small And Won Big With This PR Strategy' (Firstround.com) <<http://firstround.com/review/Square-Started-Small-and-Won-Big-with-This-PR-Strategy/>>

is not taking all the decisions if not see that those decisions are made *"I say that if I have to make a decision, we have an organizational failure. (That's) because I don't have the same context as someone who is working day to day with the data, with the understanding of the customer. I can help provide context of what's happening in the industry, what's happening with our competition, what's happening across the company, and we need to make decisions that are rich in that."*<sup>106</sup> The attitude taken by the CEO shows us the wide margin left to the employees to make decision, and take responsibility for them; we can depict this in an email sent to the employees published in 2014 *"If you have to use someone else's name or authority to get a point across (...) there is little merit to the point (you might not believe it yourself). If you believe in something to be correct, focus on showing your work to prove it."*<sup>107</sup> Empowering employees, with decision making is a way of generating a feeling that everyone in a company follows the same mission and not that they are working for someone else, also taking the goals of the company as their own, that is why at Square employees have access to the company's strategies. Jack Dorsey could have some unconventional leadership skills, but they might seem to work. In 2009, when Square was launched and was seeking for investors he distributed a list with '140 Reasons Why Square Will Fail', the interesting part is that they listed all the problem they knew they will have to face- as an emerging company disrupting the established card payment system- and the solutions they bring for them, in other words, showing the investors that they knew what they were doing<sup>108</sup>.

Testing product might be one of the principles almost all tech companies have in common, but at Square, once again they have an unusual way of doing it. They count with a coffee shop inside their office where the employees who shift to work there are Square's real employees, and they can test how the hardware/software works in a real shop.

## 2.2-FITBIT

Fitbit (FIT), in the registration statement with the SEC, offered two classes of Shares: Class A common stock and Class B common stock, the last one entitled 10 votes per share and the holders of it would have nearly 98.3% of the voting power. In addition, 51,9 %<sup>109</sup> is held by insiders, as a result, they remain with the control of the company.

The fitness tracked devices company, was the most successful venture capital-backed company that went public in 2015. On the contrary to Square's IPO that investor's return

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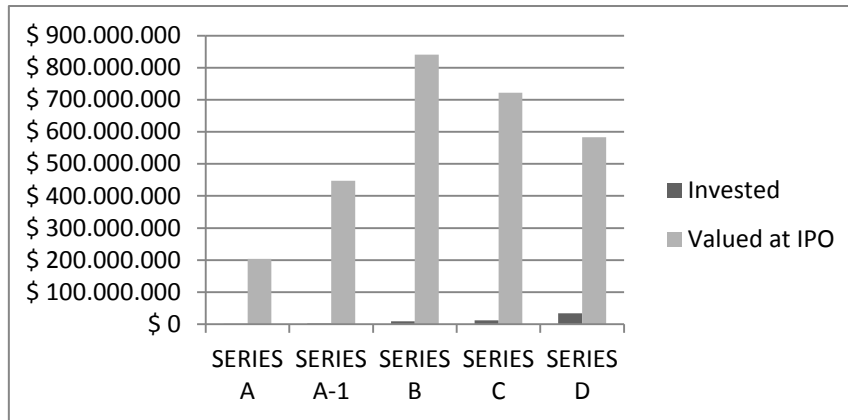
<sup>106</sup> Richard Feloni, 'Square CEO Jack Dorsey Says It's An 'Organizational Failure' If He Has To Make A Decision' (*Business Insider*, 2015) <<http://uk.businessinsider.com/square-ceo-jack-dorsey-management-decision-making-2015-5?r=US&IR=T>>

<sup>107</sup> Marla Tabaka, '5 Leadership Lessons From Twitter CEO Jack Dorsey' (*Inc.com*, 2015) <<http://www.inc.com/marla-tabaka/5-things-jack-dorsey-s-style-can-teach-you-about-being-a-better-leader.html>>

<sup>108</sup> Lapowsky, 'The Man Who Made The Cash Register Obsolete' (*Inc.com*, 2013) <<http://www.inc.com/audacious-companies/issie-lapowsky/square.html>>

<sup>109</sup> Inc. Fitbit, 'S-1/A Registration Statement' (*D1lge852tjjqow.cloudfront.net*, 2015) <<http://d1lge852tjjqow.cloudfront.net/CIK-0001447599/94ecc890-da77-49c9-9781-ec604cce12cf.pdf?noexit=true>>.

decreased over the financing rounds. Fitbit's Series A and A-1 returns were 47,896% and 21,725% respectively, while the peak for investor's return was in the Series B with 9,168%, finally the last two Series-C and D- have also positive return of 5,879% and 1,256%.



Foundry Group-the venture capital investor that holds 28.9% of the ownership-, True venture-with 22.4% of ownership- and SoftBank Capital -5.6% -are the largest Venture Capitalist winners. Meanwhile the two founders - James Park and Eric Friedman-kept a considerably big stake of the shares after the IPO, each of them hold 10.9 % of the company's shares, that's worth \$ 400 million in equity value.<sup>110</sup> The original share price was in between \$14 and \$16- Fitbit's last financial round in 2013 was done at \$ 1.80-.However, the opening price at IPOs day was at \$ 30.4 and the closing price \$29.68, a much higher number than expected. The IPO had a good initial reception with 48% of return.<sup>111</sup>

The fitness wearable device startup was one of the exceptions of successful Venture Capital-backed IPOs in 2015. But which of the principles above analysed applies to the company? The CEO and founder, James Park, is a serial entrepreneur being Fitbit his third startup project, he also co found Windup Labs and prior to this Epesi Technologies. But if we go deeper, the word of mouth has been of great value to the company, they count with a blog where people gave healthy tips, share their health fitness goals and what is more remarkable, they have the possibilities to upload their success stories of how their life changed motivating possible customers. What is important to highlight is that the stories are told by normal people in a simple way where everyone can feel identified by the same problems or the same goals<sup>112</sup>.

In the addition to the above said, the company's notion of 'what is good for me is good for we' reflect which are the values and mission of the company-company culture-. Last year they had an initiative called 'fit for good' where they donated with a million dollars to the

<sup>110</sup> Haslett, Phil "Fitbit: Path to IPO [Infographic]" EquityZen (2015). Available at: <https://equityzen.com/blog/fitbit-path-to-ipo/>

<sup>111</sup> Abelson, Jeremy-Irving Investors- and Narasin, Ben -Canvas Venture- "IPO Scorecard: Fitbit delivers huge win to late-stage investors" Venture Beat (2015) Available at: <http://venturebeat.com/2015/06/18/ipo-scorecard-fitbit-delivers-huge-win-to-late-stage-investors/>

<sup>112</sup> Fitbit blog Available at: <https://blog.fitbit.com/>

American Heart Association, the National MS Society and the American Diabetes Association.<sup>113</sup>

### 2.3-ATLASSIAN

(TEAM) The Australian collaboration software maker that went public in December 2015, in the form F-1 filled with the SEC offered two classes of shares: Class A ordinary shares and Class B ordinary shares, the holders of the latest have 98.8% of the voting power of the outstanding share capital, hence, the control of the company. The co-founders and at the same time co-CEOs-Michael Cannon-Brookes and Scott Farquhar- hold 43.3 % of voting powers each meanwhile, Accel Partners, owns 9.2%<sup>114</sup>, Notwithstanding that the initial public offering price was \$21 the opening price at the IPOs day was at 27.67 and closed with \$27.78<sup>115</sup>, around 30% higher than expected.

Along with Fitbit, Atlassian was said to be one of the most successful VC-backed companies that went public, on their first day as a public company, they got 32% of return, demonstrating that investors kept on betting in tech companies that make profit. The company before the IPO was privately held and valued in \$3.3 billion, but after it the real market value was \$5.8 billion, around 43% higher. Unlike most tech-companies Atlassian has never raised money in any VC funding rounds, and still has been profitable for 10 years.<sup>116</sup>

Atlassian the software developer and collaborative tools company, in contrast to the major of SaaS companies that spend huge amount on sales and marketing, claim don't having any direct sales force or traditional marketing strategy<sup>117</sup>, that's why they rely on the word- of -mouth and viral marketing. As a result in their main webpage they present a storytelling video of around one minute, it's simple and short but with one main objective helping teams to turn the cliché of 'everything is possible' into reality. The strategy of the SaaS Company is to build a credible and authentic story, establishing their principles as a company creating value and solutions to their customers.<sup>118</sup>

Of all the analysed companies in the present work, Atlassian is the only one that is composed by the two co-founders as co-CEO's having a great footprint in the corporate culture. In a Venture Beat interview the Chief People Officer of Atlassian describes which principles they are attached with. Starting with transparency,-same as Square Inc. - giving employees

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<sup>113</sup> Ellett, John "Fitbit Marketing Leader Shares Key To 250% Growth" Forbes (2015) Available at: <http://www.forbes.com/sites/johnellett/2015/11/20/fitbit-marketing-leader-shares-key-to-250-growth/#151164bb11b2>

<sup>114</sup> Form F-1 "Registration Statement" SEC. Available at: <http://d1lge852tjqqow.cloudfront.net/CIK-0001650372/ccbf7c18-c86d-4b64-8ef8-9da9af7227b3.pdf?noexit=true>

<sup>115</sup> Atlassian Corporation, 'Atlassian Corporation Plc Class A Ordinary Shares (TEAM) Historical Prices & Data - NASDAQ.Com' (*Nasdaq.com*) <<http://www.nasdaq.com/symbol/team/historical>>

<sup>116</sup> Heather Somerville, 'Software Maker Atlassian Pops In Debut, Brings Light To IPO Market' (*Reuters*, 2015) <<http://www.reuters.com/article/us-atlassian-corp-ipo-idUSKBN0TT27X20151210>>

<sup>117</sup> Douglas MacMillan, 'Atlassian Valued At \$3.3 Billion Selling Business Software Sans Salespeople' (*WSJ*, 2014) <<http://blogs.wsj.com/digits/2014/04/08/atlassian-valued-at-3-3-billion-selling-business-software-sans-salespeople/>>

<sup>118</sup> 'Software Development And Collaboration Tools | Atlassian' (*Atlassian*) <<https://www.atlassian.com/>>

access to the company's information and data and in this way empowering all team members to make independent decisions, and as a result come up with a more efficient company. In addition the flexibility that the new tech era allows towards their employees working hours might seem that people are no longer needed to be tied to the company's physical building to work, prevailing other aspects of people's life such as family or other issues, enabling the company to retain labour force with different ages, cultures and genders . All this said, the mission of the company is to achieve a more collaborative and transparent environment where the workers feel passion about what they are doing, and with this, it's more probable to ensure efficiency and success<sup>119</sup> .

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<sup>119</sup> Michael Michael Feferman, 'Company Culture Tips From Netflix, Zappos, Atlassian' (*VentureBeat*, 2016) <<http://venturebeat.com/2016/01/17/company-culture-tips-from-netflix-zappos-atlassian/>> accessed 9 June 2016.



## CONCLUSIONS

The new tech era brings with it new principles that have revolutionized traditional structures in all ways. The classic notion of company, as well as the established markets and industries, are being re-imagined. The reason beneath all this has a same goal: solve people's problems.

The present work's intention was finding common principles among 2015 most successful tech startups companies. Of all the analyze companies- that the media considers successful- we can conclude the following:

**I-** The fact that the US has a flexible market, with low barriers of entry for new ventures, in addition with the vast numbers of venture capital investors that wager for innovative and disruptive companies, gives the ideal scenario for the development of tech startups companies. This is one of the reasons most of the companies remain privately held- they don't need to go public to attract investors-.

**II-** Of the analyzed startups around 19% of them counts with sharing economy business models. But it's remarkable that until December 2015 two of them counted with the highest privately held company valuations-Uber with \$51 billion and Airbnb with 25.5 billion-.

**III-** The pattern of the A/B tests to get to know user preferences is used by 19% of the analyzed companies including the ones that apply the Lean Startup methodology –Airbnb and Dropbox- both coincidently with the same seed accelerator-Y Combinator-.

**IV-** A great majority of startups such as Dropbox, Uber, Atlassian spend almost no money in marketing, they rely on the virality of the product. In the middle of the road, Snapchat and Pinterest, still relaying on advertisements but believing that they shouldn't be invasive or not accurate in the context. On the other hand, and it's not a coincidence, the two providers of daily fantasy sport contest, find invasive advertisements are the way of engaging the consumers, spending millions of dollars in commercials.

**V-** The principle par excellence and pattern-in marketing strategy- of the analyzed tech companies, without any doubt is Storytelling. This branding tool-in most cases it's used via videos or blogs- have different kind of storytellers, on the one hand could be the same users or the company itself, but the aim is to tell a story with principles and values that customers' like to hear taking into account their need and interests. This principle is used by all the analyzed companies.

**VI-** Without any doubt, the tech era brings with it new power structures, and building the right company culture- where the core values and mission of the company are defined- it's essential, not only for the company itself – managers and employees- but also for the ones that are going to invest in your company. The trend of the startup companies does not set aside the entrepreneurial spirit that lead them to be nowadays great companies.



**VII-** Closely related with the above principle, the founders of the company play key role not only in the early stages of the company, but also in maintaining overtime the startups core values. Of the analyzed companies 75% have founders as CEOs.

**VIII-** Venture Capitalist plays a key role, in the analyzed companies. We will find in from two till seven with holding position in the Board of Directors.

**IX-** Finally, it is noticeable that the startups analyzed in the present work that went public in 2015 and are either private equity backed –GoDaddy and Match Group- or Venture capital-backed- Atlassian, Square and Fitbit-had positive returns after the first day of IPO. However, GoDaddy led the list of LBO with 60% of return, while the performance for those VC-backed was led by Fitbit with 48% of return followed by Atlassian 32%. It is important to highlight that these companies did well even though 2015 was a wicked year in private equity and VC backed.

Overall, although there is a trend that the privately held startup companies tend to keep on applying these principles on regular basis, the truth is that taking into account the ownership structure of those that started trading in the US market they still hold a major stake of the voting rights –more than 90%- hence, they remain with the control of the company, therefore there is not a huge difference between private and public companies when we talk about the principles applied.

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