Puget Sound Business Journal
Business Leaders Get It.

JANUARY 2011

Start up business mistakes to avoid

Start-up Business Mistakes to Avoid
Mulligans. Do-overs. Whatever you call them, every entrepreneur has mistakes they wish they had avoided. That's why the Northwest Entrepreneur Network invited Zillow CEO, Spencer Rascoff to talk about what worked well and what didn't while co-founding and managing two successful online companies, Hotwire in 1999 and Zillow in 2005. Here are five insightful takeaways that Rascoff picked up along the way.

Make business smart deals.
At all costs avoid letting partners take control of your business. In fact former market leader Priceline made this mistake, and that's what opened the market opportunity door for Hotwire's success. Here's the lesson: As Priceline grew by making airline partnership agreements they ultimately gave Delta a 20% stake in the business. This deal came at an awful price to the business because it positioned Delta to call the shots, directly impacting Priceline's business model. Realizing the impact, Hotwire avoided giving control, a board seat or voting rights to a single airline. Instead they set up a consortium play, giving all airlines a chance to participate and compete. They incentivized partner behavior to benefit the business by setting up equity shares based on each airlines share of sales. This created competition and a reward-based environment that benefited Hotwire.

Aggressively exploit new market niches.
Both Hotwire and Zillow expertly exploited untapped markets early on. Hotwire focused on the hotel sector of travel. This proved to be a better value proposition than airline purchases because with hotel purchases there are fewer unknowns, making the buy decision easier and more opaque. This also fueled a huge growth opportunity compared to competitors focused solely on airlines. Similarly, Zillow who is well known for online real estate added the additional focus of mobile applications. The company now dominates the mobile real estate market which is proving to be critically important given that a home is currently viewed on a mobile device six times a second.

Executive Insights

Cheryl Isen

Be smart about spending trade-offs.
Like Google and Amazon, Hotwire and Zillow spent little money out of the gate on advertising. The early tradeoff theory is simple: if you're spending on advertising you're not investing in the product. With Zillow's well-known management team they were presented with an exceptional opportunity to leverage a great public relations strategy and were very strategic about their approach. Zillow teased the market for months and built up regular media exposure by providing tiny tidbits of news that the media anxiously sought out as they pieced together the stealth start-up story. Companies without a known executive team can replicate this approach by being cautious in media interviews and carefully parceling out their story, saving compelling news for future interview opportunities.

Avoid "how and why" positioning".
Hotwire fell into the trap of trying to explain why their product was great and how it worked, instead of just keeping it simple. This made their messaging too long and overly complicated. Their hidden most compelling market message was simply, "it's cheap". The lesson? It's far wiser to get in the door with a simple message and explain the how and why later. At Zillow Rascoff learned a strategy for figuring out simple messaging that the target market would respond to. They invested in marketing personas. This included dissecting the target market into highly detailed "individuals". Zillow has "Buyer Beth", "Larry Lender" and "Rachel Renter", among others. Everyone in a sales or marketing role clearly understands each personas needs and wants.

There are three B-to-C requirements for success.
Through building Hotwire and Zillow into successful business-to-consumer companies, Rascoff discovered three elemental requirements to growing a successful B-to-C business. They need:

1. Obvious consumer benefit,
2. Clear business partner benefit, and
3. Large market opportunity.

Perhaps obvious to the casual observer, narrowing success down to the core elements is never easy. However, a quick market test proves they work. Look at Amazon, Google and Zillow. Each offer the consumer benefit of selection, business partner access via e-commerce, and access to large markets. Now that's a proven, simple way to spell success.

These "Executive Insights" are based on monthly presentations provided by leading entrepreneurs at the Northwest Entrepreneur Network (NWEN.org), a non-profit organization dedicated to helping entrepreneurs succeed. The column is written by Cheryl Isen, founder of Isen & Company, a strategic marketing and public relations firm that helps emerging companies increase corporate visibility and brand awareness Contact Cheryl at (425) 222-0779, Cheryl@IsenandCo.com or on the web at www.IsenandCo.com.