

startup

Magazine for entrepreneurs & innovators

**A rapid
success**

**Startups.
What not
to do?**

By Jason Mendelson

**1000
True fans**

By Kevin Kelly

**The secret
behind Facebook**

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Eylem Culculoglu

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New season, new starts...

We aim to create a platform that allows entrepreneurs and venture capital companies get together

Spring brings new life to earth. After the long cold winter days, earth becomes fertile with sunshine and new life starts. We decided to launch our magazine in this spring. We believe spring is the best time for new starts. Startup Magazine will cover new startups, innovations and new visions. Every issue in the pages of startup you will find something new, something innovative.

Internet changed our lifestyles. Internet changed the way we think, the way we act and also the way we make business. Before the internet to be successful in any business you needed capital. Big fish always ruled the world and there was no place for small fish. This totally has changed with internet.

Now a young entrepreneur with good ideas and good wisdom can make millions even billions of dollars in a real short time. Microsoft, Apple, Google, Facebook are just examples.

Ideas meets capital

To become successful in business good ideas should meet with capital. Venture capital companies play a great role in today's business. Every good startup needs professional management and capital to grow. In our magazine we aim to create a platform that allows entrepreneurs and venture capital companies get

together. Startup Magazine will not only be a regular magazine on business and technology but it will be a platform for startups. Our pages are open for everyone with good ideas.

Startup Magazine is an international magazine with writers all over the world. In this issue you will find a very interesting article from Kevin Kelly – cofounder of Wired magazine – about 1000 true fans. Kevin Kelly will contribute us with his articles in upcoming issues too. Famous entrepreneurs from USA, Jeffrey Busgang and Jason Mendelson will be giving tips and tricks to new startups.

Every issue we will cover success stories from all over the world. Also every issue will have a special country guide. With those country guides you will get detailed information about how to make business in foreign countries.



RapidShare's success

This issue we made a special interview with Daniel Reimer from RapidShare. RapidShare is world's number one file hosting company and they got successful real rapidly. In the coming pages you can read about this interesting story.

We want to be interactive with our readers so please share your thoughts with us. We will be more than happy to hear from you. See you at our next issue!

A rapid success!

RapidShare started as an one-man company and only in 6 years have become world’s largest file hosting service with 13 petabyte storage space

Eylem Culculoglu

Back in 1960’s internet first started with email, then it evolved in an amazing rate. At 1993 internet became commercialized and everything changed afterwards. We used to have ugly looking static web pages now multimedia rules the world. Obviously internet is not only the ‘web’, there are numerous protocols running on it and file transfers is one of them. Back in old days file transfers were made only by FTP protocol and sending large files from one location to other was really hard.



Daniel Raimer, Spokesman of RapidShare, says they value their customers privacy and they don’t use any file monitoring applications.

One man show

Beginning of the 2000’s a young entrepreneur named Christian Schmid was running forum hosting services and he was having hard time with transferring large files. He decided to create his own service for transferring files and RapidShare was born! The first name of RapidShare was Ezshare. Schmid found out that name was already taken by Kodak and changed the name to RapidShare. The service started real small with only few users but now it has become one of the most known internet services in the world. RapidShare currently ranks 88 in Alexa and receives 40 million visitors every day.

When RapidShare started at the year 2005 it was an one man company. Christian Schmid was taking care of everything, including the support and sales. The website address was rapidshare.de and because of the domain name it was mainly aiming German customers. In the following years site became very popular along other countries as well. Schmid first formed a new company with rapidshare.com address, kept both sites and then continued with rapidshare.com only.

War against piracy

RapidShare’s Spokesman Daniel Raimer says RapidShare is known for file sharing but actually a file hosting company. Raimer says they operate in the cloud and a lot of business customers use their services to transfer large files from one location to another. Daniel Raimer says they are really concerned on copyright issues and they want to keep copyrighted material out of RapidShare. For that reason, company employs 17 people in its Switzerland headquarters. Usual response time for DMCA copyright requests is only 1 hour within working hours. Also company uses proactive technolo-



gies to prevent copyrighted material distribution RapidShare currently has 60 employees and they are using several different datacenters in Frankfurt, Germany. When RapidShare started at 2005 there was no There is no research on market share of file hosting companies but according to Alexa, Rapidshare is within number 3. Company has 13 petabyte storage space and every month petabytes of data travels through the RapidShare servers. Company has more than 600 gbps bandwidth, which is more than many countries’ total bandwidth.

Privacy matters

RapidShare hosts a lot of files including sensitive business information. Daniel Raimer states privacy is very important for them and no one in the company can access hosted files. Also Raimer says they do not use any file monitoring software to assure best privacy possible. RapidShare uses its own operating system so it is much secure than commercial systems. RapidShare’s founder Christian Schmid created that secure operating system and it is for file hosting services only. When RapidShare started at 2005 there was no competition but now there are several companies around. This makes

things harder for RapidShare. Daniel Raimer says they differ from the competition offering superior customer support and fast services. RapidShare wants to continue only on file hosting business. Daniel Raimer says they know this business well and they will continue to offer robust services to their customers and introduce new technologies especially on the mobile side.competition but now there are several companies around. This makes things harder for RapidShare. Daniel Raimer says they differ from the competition offering superior customer support and fast services. RapidShare wants to continue only on file hosting business. Daniel Raimer says they know this business well and they will continue to offer robust services to their customers and introduce new technologies especially on the mobile side.

RapidShare at a glance

RapidShare is a Swiss-owned one-click hosting pay- and free-service (with certain restrictions and limitations) website that operates from Switzerland and is financed by the subscriptions of paying users. RapidShare is one of the world’s largest file-hosting sites, with 13 petabytes of files on its servers, and handling up to three million users simultaneously.

Anyone producing works of art needs to acquire only 1,000 True Fans to make a living.

The long tail is famously good news for two classes of people; a few lucky aggregators, such as Amazon and Netflix, and 6 billion consumers. Of those two, I think consumers earn the greater reward from the wealth hidden in infinite niches.

But the long tail is a decidedly mixed blessing for creators. Individual artists, producers, inventors and makers are overlooked in the equation. The long tail does not raise the sales of creators much, but it does add massive competition and endless downward pressure on prices. Unless artists become a large aggregator of other artist’s works, the long tail offers no path out of the quiet doldrums of minuscule sales.

Other than aim for a blockbuster hit, what can an artist do to escape the long tail?One solution is to find 1,000 True Fans. While some artists have discovered this path without calling it that, I think it is worth trying to formalize. The gist of 1,000 True Fans can be stated simply: A creator, such as an artist, musician, photographer, craftsperson, performer, animator, designer, videomaker, or author - in other words, anyone producing works of art - needs to acquire only 1,000 True Fans to make a living.

Who is a true fan?

A True Fan is defined as someone who will purchase anything and everything you produce. They will drive 200 miles to see you sing. They will buy the super deluxe re-issued hi-res box set of your stuff even though they have the low-res version. They have a Google Alert set for your name. They bookmark the eBay page where your out-of-print editions show up. They come to your openings. They have you sign their copies. They buy the t-shirt, and the mug, and the hat. They can’t wait till you issue your next work. They are true fans.

To raise your sales out of the flatline of the long tail you need to connect with your True Fans directly. Another way to state this is, you need to convert a thousand Lesser Fans into a thousand True Fans.

Assume conservatively that your True Fans will each spend one day’s wages per year in support of what you do. That “one-day-wage” is an average, because of course your truest fans will spend a lot more than that. Let’s peg that per diem each True Fan spends at \$100 per year. If you have 1,000 fans that sums



1000 True fans

Kevin Kelly

added one fan a day, it would take only three years. True Fanship is doable. Pleasing a True Fan is pleasurable, and invigorating. It rewards the artist to remain true, to focus on the unique aspects of their work, the qualities that True Fans appreciate.

The challenge

The key challenge is that you have to maintain direct contact with your 1,000 True Fans. They are giving you their support directly. Maybe they come to your house concerts, or they are buying your DVDs from your website, or they order your prints from Pictopia. As much as possible you retain the full amount of

their support. You also benefit from the direct feedback and love.The technologies of connection and small-time manufacturing make this circle possible. Blogs and

RSS feeds trickle out news, and upcoming appearances or new works. Web sites host galleries of your past work, archives of biographical information, and catalogs of paraphernalia. Diskmakers, Blurb, rapid prototyping shops, Myspace, Facebook, and the entire digital domain all conspire to make duplication and dissemination in small quantities fast, cheap and easy. You don’t need a million fans to justify producing something new. A mere one thousand is sufficient. This small circle of diehard fans, which can provide you with a living, is surrounded by concentric circles of Lesser Fans. These folks will not purchase everything you do, and may not seek out direct con-

tact, but they will buy much of what you produce. The processes you develop to feed your True Fans will also nurture Lesser Fans. As you acquire new True Fans, you can also add many more Lesser Fans. If you keep going, you may indeed end up with millions of fans and reach a hit. I don’t know of any creator who is not interested in having a million fans.But the point of this strategy is to say that you don’t need a hit to survive. You don’t need to aim for the short head of best-sellerdom to escape the long tail. There is a place in the middle, that is not very far away from the tail, where you can at least make a living. That midway haven is called 1,000 True Fans. It is an alternate destination for an artist to aim for.

Young artists starting out in this digitally mediated world have another path other than stardom, a path made possible by the very technology that creates the long tail. Instead of trying to reach the narrow and unlikely peaks of platinum hits, bestseller blockbusters, and celebrity status, they can aim for direct connection with 1,000 True Fans. It’s a much saner destination to hope for. You make a living in-

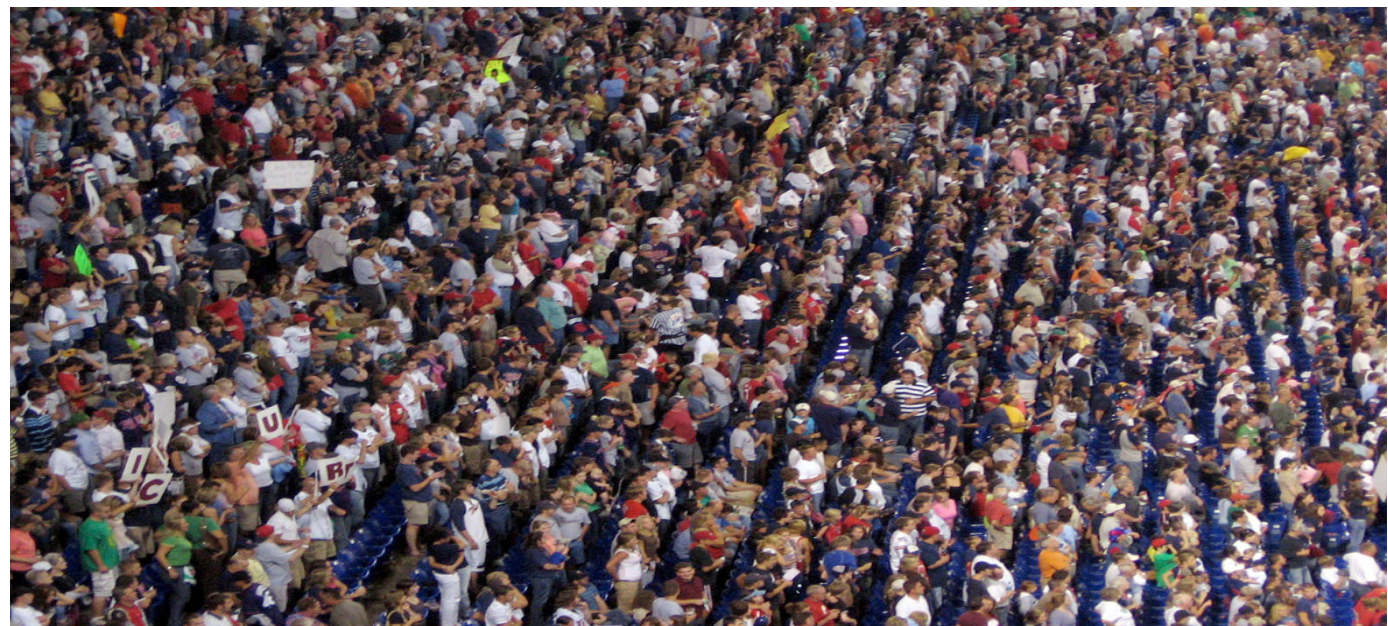
stead of a fortune. You are surrounded not by fad and fashionable infatuation, but by True Fans. And you are much more likely to actually arrive there. direct connection with 1,000 True Fans. It's a much saner destination to hope for. You make a living instead of a fortune. You are surrounded not by fad and fashionable infatuation, but by True Fans. And you are much more likely to actually arrive there.

A few caveats. This formula - one thousand direct True Fans -- is crafted for one person, the solo artist. What happens in a duet, or quartet, or movie crew? Obviously, you'll need more fans. But the additional fans you'll need are in direct geometric proportion to the increase of your creative group. In other words, if you increase your group size by 33%, you need add only 33% more fans. This linear growth is in contrast to the exponential growth by which many things in the digital domain inflate. I would not be surprised to find that the value of your True Fans network follows the standard network effects rule, and increases as the square of the number of Fans. As your True Fans connect with each other, they will more readily increase their average spending on your works. So while increasing the numbers of artists involved in creation increases the number of True Fans needed, the increase does not explode, but rises gently and in proportion.

Managing fans

A more important caution: Not every artist is cut out, or willing, to be a nurturer of fans. Many musicians just want to play music, or photographers just want to shoot, or painters paint, and they temperamentally don't want to deal with fans, especially True Fans. For these creatives, they need a mediator, a manager, a handler, an agent, a galleryist -- someone to manage their fans. Nonetheless, they can still aim for the same middle destination of 1,000 True Fans. They are just working in a duet.

Third distinction. Direct fans are best. The number of True Fans needed to make a living indirectly inflates fast, but not infinitely. Take blogging as an example. Because fan support for a blogger routes through advertising clicks (except in the occasional tip-jar), more fans are needed for a blogger to make a living. But while this moves the destination towards the left on the long tail curve, it is still far short of blockbuster territory. Same is true in book publishing. When you have corporations involved in taking the majority of the revenue for your work, then it takes many times more True Fans to support you. To the degree an author cultivates direct contact with his/her fans, the smaller the number needed. True fan number that works. Lastly, the actual number may vary depending on the media.



has already been donated, and donate money Maybe it is 500 True Fans for a painter and 5,000 True Fans for a videomaker. The numbers must surely vary around the world. But in fact the actual number is not critical, because it cannot be determined except by attempting it. Once you are in that mode, the actual number will become evident. That will be the True Fan number that works for you. My formula may be off by an order of magnitude, but even so, its far less than a million. I've been scouring the literature for any references to the True Fan number. Suck.com co-founder Carl Steadman had theory about microcelebrities. By his count, a microcelebrity was someone famous to 1,500 people. So those fifteen hundred would rave about you. As quoted by Danny O'Brien, "One person in every town in Britain likes your dumb online comic. That's enough to keep you in beers (or T-shirt sales) all year."

Others call this microcelebrity support micro-patronage, or distributed patronage. In 1999 John Kelsey and Bruce Schneier published a model for this in First Monday, an online journal. They called it the Street Performer Protocol. Using the logic of a street performer, the author goes directly to the readers before the book is published; perhaps even before the book is written. The author bypasses the publisher and makes a public statement on the order of: "When I get \$100,000 in donations, I will release the next novel in this series." Readers can go to the author's Web site, see how much money to the cause of getting his novel out. Note that the author doesn't care who pays to get the next chapter out; nor does he care how many people read the book that didn't pay for it. He just cares that his \$100,000 pot gets filled. When it does, he publishes the next book. In this case "publish" simply means "make available," not "bind and distribute through bookstores." The book is made available, free of charge, to everyone: those who paid for it and those who did not.

Novel fans

In 2004 author Lawrence Watt-Evans used this model to publish his newest novel. He asked his True Fans to collectively pay \$100 per month.

When he got \$100 he posted the next chapter of the novel. The entire book was published online for his True Fans, and then later in paper for all his fans. He is now writing a second novel this way. He gets by on an estimated 200 True Fans because he also publishes in the traditional manner -- with advances from a publisher supported by thousands of Lesser Fans. Other authors who use fans to directly support their work are Diane Duane, Sharon Lee and Steve Miller, and Don Sakers. Game designer Greg Stolze employed a similar True Fan model to launch two pre-financed games. Fifty of his True Fans contributed seed money for his development costs.

The genius of the True Fan model is that the fans are able to move an artist away from the edges of the long tail to a degree larger than their numbers indicate. They can do this in three ways: by purchasing more per person, by spending directly so the creator keeps more per sale, and by enabling new models of support.

Micro-patronage

New models of support include micro-patronage. Another model is pre-financing the startup costs. Digital technology enables this fan support to take many shapes. Fundable is a web-based enterprise which allows anyone to raise a fixed amount of money for a project, while reassuring the backers the project will happen. Fundable withholds the money until the full amount is collected. They return the money if the minimum is not reached.

Here's an example from Fundable's site; Amelia, a twenty-year-old classical soprano singer, pre-sold her first CD before entering a recording studio. "If I get \$400 in pre-orders, I will be able to afford the rest [of the studio costs]," she told potential contributors. Fundable's all-or-nothing model ensured that none of her customers would lose money if she fell short of her goal. Amelia sold over \$940 in albums.

A thousand dollars won't keep even a starving artist alive long, but with serious attention, a dedicated artist can do better with their True Fans. Jill Sobule, a musician who has nurtured a



sizable following over many years of touring and recording, is doing well relying on her True Fans. Recently she decided to go to her fans to finance the \$75,000 professional recording fees she needed for her next album. She has raised close to \$50,000 so far. By directly supporting her via their patronage, the fans gain intimacy with their artist. According to the Associated Press:

Contributors can choose a level of pledges ranging from the \$10 “unpolished rock,” which earns them a free digital download of her disc when it’s made, to the \$10,000 “weapons-grade plutonium level,” where she promises “you get to come and sing on my CD. Don’t worry if you can’t sing - we can fix that on our end.” For a \$5,000 contribution, Sobule said she’ll perform a concert in the donor’s house. The lower levels are more popular, where donors can earn things like an advanced copy of the CD, a mention in the liner

notes and a T-shirt identifying them as a “junior executive producer” of the CD.

The usual alternative to making a living based on True Fans is poverty. A study as recently as 1995 showed that the accepted price of being an artist was large. Sociologist Ruth Towse surveyed artists in Britain and determined that on average they earned below poverty subsistence levels.

I am suggesting there is a home for creatives in between poverty and stardom. Somewhere lower than stratospheric bestsellerdom, but higher than the obscurity of the long tail. I don’t know the actual true number, but I think a dedicated artist could cultivate 1,000 True Fans, and by their direct support using new technology, make an honest living. I’d love to hear from anyone who might have settled on such a path.

Here is what not to do!

3 Behaviors that fail when looking for a partnership or job

JASON MENDELSON

I’m asked all the time to play matchmaker between folks and companies that we’ve invested in. Sometimes it’s someone looking for a job, sometimes it’s one company looking to partner with one of our investments and other times it’s something completely different. I’m always happy to do so long as I think it could be a mutually beneficial relationship. Lately, however, I’ve seen an increase in behaviors that do nothing but turn me off. I feel almost silly writing this post. These should be obvious. Perhaps this will help someone? Or at least, I’d love to hear some other stories which will make me laugh.

Poor behavior #1: Expect me to do all the work. This is the person who wants an intro to a company, but it is like pulling teeth trying to get them to write something that I can send along to the company. First, the askee should have a better idea than I do why there is a good reason to connect. Second, if I’m going to take time to make an intro, then why would you want to wait for me to get around to writing an email? I could end up getting so busy that I never get around to it. And it’s just nice etiquette, too, I think.

Poor behavior #2: Be overly aggressive to get directly connected to the company. This is the person who wants me to introduce them to an executive at a company, before I check in the with the company to see if they are interested. Our companies are really busy building businesses and if they don’t have an interest, I’m not going to force them (or guilt them, as an investor) to meet with someone. When I say that I’ll make the intro if the company is interested and the askee becomes aggressive wanting a direct intro, it really turns me off. Remember, it takes me more time to check

in with the company and then get back to the person than an instant intro, so it isn’t like I’m not trying. I’m just attempting to be respectful of our portfolio companies’ executives’ time.

Poor behavior #3: Insult my company in an attempt to show your worth. This is my favorite. This is the person who tells me that the reason our portfolio company needs to meet with them is because our company sucks in some capacity. Insults will get you nowhere. This isn’t the case where a person says “Hey, I can help your company do X better.” This is the person who says “I can fix your company’s debacle” or “Your company has no idea how to monetize. They suck at revenue.” (I am very lightly changing actual quotes sent to me). Every startup company has issues. Actually, every company has issues and can be better at some things, but acting as a know-it-all and being arrogant and thinking that an outsider is smarter than anyone inside one of our companies is probably a bad strategy. Okay, rant over. Am I missing any good ones?





Should I become an Entrepreneur?

When to become an entrepreneur is a common quandary for many. For whatever reason, this issue has come up a great deal recently (recession-driven workforce dislocation?), so I thought I'd share a few thoughts that might help frame this critical decision. Despite popular wisdom to the contrary, age is not a major factor in the decision to start a company. The Kauffman Foundation reports that the median age of founders is 39 - right at the midpoint of a typical professional career - and 69% are 35 or older. Here are the kinds of questions you should ask yourself:

1. Do you have an idea that no one can talk you out of? When you bounce your start-up idea off your spouse, friends and trusted advisors, are they able to raise enough objections that you begin to doubt whether the idea has merit. Getting honest, objective advice can be hard because the people you are likely to go to care about you and may be afraid to tell you what they really think for fear of offending you. Thus, you need to get feedback from objective parties (e.g., advisors, experts, prospective angel or VC investors with whom you don't have a deep personal relationship).

2. Are you prepared to endure with modest or no salary for a few years? Founding a company often means making personal sacrifices and below-market cash compensation. All the talk about "lean start-ups" (which I'm a big fan of) sometimes obscures the practical reality of what it means to eat through your personal savings.

3. Do you have a partner you trust with complimentary skills? Starting a company is a lonely adventure. Having a part-

ner that you can trust and whose skillset and experience is complementary to yours can be a huge functional and emotional benefit.

4. Are you bored with your current work environment/life situation? There is nothing boring about being an entrepreneur. More apt adjectives might include stimulating, engrossing, obsessive, exhilarating, nerve-racking - but not boring. If you are tired of viewing your work as a chore and if every day is a bit of a grind, then entrepreneurship is for you. I find that the intrinsic motivation behind an aspiring entrepreneur is sometimes the simplest - because it's fun. Seeking fun can transcend all other factors.

5. Do you perform best in the absence of structure? In my book, Mastering the VC Game, I describe a metaphor for the three stages of a start-up: the jungle, the dirt road and the highway. In the earliest stages of a venture - the jungle - there are no clear paths available and the skills required are to thrive in the midst of the chaos. For those who possess that makeup, being a start-up executive is an excellent fit. But for those that like clear paths with little uncertainty and a great deal of structure - the highway - an early-stage venture will feel like a very uncomfortable environment. Celebrating entrepreneurial success stories in our culture and putting folks like Steve Jobs, Bill Gates, Larry Page and even more accessible, local heroes on magazine covers and in front of audiences is obviously a huge factor. Every college kid in America looks at Mark Zuckerberg and thinks, "Why not me?" Why not, indeed? bostonvcblog.typepad.com

SHIFT the way you move



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