

URL: <https://stvp.stanford.edu/clips/reflections-on-combining-companies>

Answering a question from the audience, CEO Phil Libin shares lessons learned from merging together two company teams to form a new entity, Evernote. While there was general harmony among the employees, the new organization's unique structure made it difficult to raise funds from outside investors.



Transcript

You said that you joined with another smaller company, how did that process go as far as managing ownership and syncing those two companies? Well, it was mixed, frankly.. On the one hand, it was really good in terms of the two companies meshed together and Stepan, the founder of the other one and I just got along fantastically well and he was just fantastic about kind of being extremely helpful but also not getting in the way because I was the CEO of the combined entity and sort of culturally it worked out.. So like the mix between the two people, that actually went great, or the two teams.. And there were some difficulties but for the most part, that was very good.. The main problem that we had which I totally didn't anticipate and why I do not recommend doing this at all is it made us un-fundable because it - what it turns out is investors especially here but really everywhere like they don't want to see creativity on the cap table, anything that doesn't start like a normal startup is like two friends in college and you get started and you get some founder shares and you do friends and family and then you do an angel, like that's normal.. As soon as you have something weird, you're like woah.. There's like two different companies and one had some investment and one had others and the cap table is like too long and there's like already multiple classes of stock, right, as soon as it looked different basically until we had enough traction to actually make it worthwhile for investors to look beyond that, no one would look beyond it.. So, we probably struggled for a year longer than we would have otherwise because of that and I had no idea.. I had no idea that investors were kind of, you know, were going to be like this but it was very difficult for us to raise money because we had an unconventional structure.. And that kind of taught me an important lesson which is startups - you know, people say that startups should be innovative, sort of the engines of innovation at a startup; completely wrong..

Startups must never innovate on anything at all whatsoever except your one thing.. So the thing that you're doing, your product, you pour all your innovation on that.. Everything else, it's got to be completely by the book, completely cookie cutter.. You do not want to be smart about anything else because it will just get in the way of it.. So when an engineer comes to you and says, hey, Phil - maybe he won't call you Phil, but this database we're using is really crappy.. I've got an idea for a totally better database that I can write myself and it will totally be better for us.. I am going to write my database.. You say, no, we are going to use the boring database off the shelf because that's good enough.. If you are passionate about writing a better database, you go and start a database company and then you do that.. And if somebody else comes in and says, hey, I've got a totally clever way that we can figure out our stock options that are like not really how other people are doing stock options because the way other people are doing them isn't fair and I've got a better way of doing stock options..

You say, no, because that's going to make us un-fundable.. If you are passionate about a different way of doing stock options, you go and start - I don't know, well whatever, you're screwed, I guess.. So the mistake we made is we innovated in the initial structure of the company which is not something that I would repeat...