An Interview with Ron Feldman

Ron Feldman, CEO, Kwiry, speaks with Growthink University's Dave Lavinsky

Dave Lavinsky: Hi everyone! This is Dave Lavinsky from Growthink and I'm speaking with Ron Feldman. Ron is the CEO and co-founder of Kwiry, that's K-W-I-R-Y and you can visit Kwiry at www.kwiry.com. So, Ron, first of all, I appreciate you taking time to speak with us today.

Ron Feldman: No problem!

Dave Lavinsky: Excellent! So, really, I'd like if you can start to talk about Kwiry, the background of the company and what it's all about and then talk to us about when you started the company, when you first conceived it and the capital raising process. You've had a lot of success in capital raising, maybe you can talk about the challenges you faced and how you've overcome them and everything that's transpired over the last few years?

Ron Feldman: Sure! That's a lot of questions. Cut me off if I'm saying too much.

Dave Lavinsky: Sounds good.

Ron Feldman: So, Kwiry, in short, is a service that helps you use your cell phone to remember anything that you see or hear when you're not in front of your computer. We use text messaging. You simply send a text message of whatever that is to Kwiry, which is 59479. Then we process that and send you relevant information to your email and other places online.

So, that's the basic description of what Kwiry is and it's certainly evolved in a lot of ways since we started it. We co-founded the company in September of '06. There were three of us that were co-founders and we had worked a little bit on it over the summer of '06 as well. We all quit our jobs and went full time and effectively bootstrapped the company through working for free, sweat equity as well as a little bit of our savings and some credit cards as well.

Dave Lavinsky: So, at that point did you have any outside friends and family or is it mostly you guys?

Ron Feldman: No, it was just a very small amount of money. I think we invested like $5,000 each from the three of us plus sweat equity and then we put some expenses on credit cards, each of us took out some interest-free credit cards. So, that was helpful that those were available.

Then we worked on developing the first version of the site and service over those months as well as conceiving kind of a more full-fledged business plan and a set of investor materials. Then probably in November or December of '06, we started actively kind of looking for investors and we were primarily looking at the time for angel investors. So, we started trying to use our networks to set up meetings to find different angels to speak with.

Dave Lavinsky: Let me interject real quick. Just so everyone else knows that you guys are based in San Francisco in the Silicon Valley area. So, in your angel search, you looked locally, I'm assuming?

Ron Feldman: Yeah, primarily locally. I mean, we certainly talked to all of our contacts who were both local and not local to see whether there were extended friends and family who potentially wanted to be angels. Then in terms of traditional angels, that was mostly local that we looked to try to get those contacts. It was more challenging than we thought to kind of find those traditional angels, to get those meetings set up and we didn't actually have too many of those meetings.

As everybody knows, the angel groups – which we generally avoided for a whole variety of reasons – are kind of easier ways to get in front of angels.

There's also in San Francisco in the Bay area, many, many venture capital firms which are much easier to reach, and much clearer who they are and who you

would want to get in front of. So, in that process, we were referred to a few different venture firms and talked to a couple.

Then the serendipitous event was a networking event, an MIT alumni event that I personally attended where I kind of, like I said, serendipitously ran into a partner at Hummer Winblad Venture Partners, Mark Gorenberg, and just started chatting about what Kwiry was doing and what I was doing.

And he said, "*Well, that sounds really, really interesting. Would you like to come in and meet with us?*" I said, "*Well, we weren't really considering venture capital funding at all*" and he said, "*Well, at least come meet with us. We do some seed investing, etc.*"

So, we went in and took a meeting with them and we had a great meeting, we hit it off both directions and things progressed from there very quickly to a term sheet stage and eventually closing a one million dollar seed round of funding with them which was more than we had intended to raise. We were only looking for kind of $250,000 to $500,000 and they luckily convinced us to take some more money which, in retrospect, was a very good decision.

Dave Lavinsky: Right, because it allowed you... Can you talk about that? It allowed you more runway? What did it afford you?

Ron Feldman: Yeah, it allowed us more runway and I'm sure we were all first time entrepreneurs and certainly for first time entrepreneurs and probably for everybody, you always kind of underestimate the amount of time things will take to develop, both from the standpoint of products and customers and etc, etc.

So, the runway that it allowed us was certainly very helpful as well as the fact that there's kind of a fixed cost in raising money from a number of perspectives, in terms of time and due diligence and legal fees, etc. I mean, if that could be spread over greater dollars I think that's generally beneficial.

Dave Lavinsky: I agree. You talked about the serendipity behind going to the MIT networking event, but on the other hand, you actually earned it because you actually, I'm assuming, were at the event with that motive in mind, which is it would be great to keep meeting people and networking people. Is that correct?

Ron Feldman: Absolutely! There's no question that networking I think is incredibly essential to getting in front of the right people and it's networking from the standpoint of networking within your existing networks and getting introductions as well as going to networking events that are particularly targeted networking events. Whether that's alumni events like this was or events of groups that you belong to or organizations or trade associations, it's certainly helpful. I think that the serendipity part of it is one, you go to an event where there's, let's say, a few hundred or a thousand people even, the likelihood of you meeting the right person by accident is not that high.

Dave Lavinsky: Right.

Ron Feldman: Two, you tend to have to go to a lot of these events and meet a lot of people that may not be the right people before you find the right one. So, it is unfortunate in terms of there is no formula of if I only go to three events a week for six weeks I'll just find the right person.

In general, I think, as an entrepreneur, networking is an important part of what you should be doing and that if you do it enough for a long enough period of time, you will meet people that will be helpful to you, whether as investors, partners or employees. It's just it's a lot of investment and it sometimes takes serendipity to get to the right place.

Dave Lavinsky: Agreed. We call that kissing a lot of frogs before you find your prince. So, it's a lot of work, but when it does work out and you do find the right people, it's worth the work that you put into it.

Ron Feldman: Absolutely! Sometimes, like I said, you kind of need to force yourself to do it because they're not easy things to do. They take a lot of time and energy after a long day of working.

It should be said that that particular event, I came very close to not even attending because it was on a Friday and I was exhausted. So, it was only my girlfriend that convinced me, "*You should really just go*." So, if you're ever kind of thinking about, "*Should I go or not go?*" – force yourself and do it.

Dave Lavinsky: I definitely agree. It's all about working hard to get what you want and I think we both know a lot of successful people and I don't think I've ever met a successful person that said they got there by relaxing and not working very hard. You got to work hard to get what you want.

Ron Feldman: Yup!

Dave Lavinsky: Maybe you can talk to me about once you raised your initial capital from Hummer Winblad – and it looks like you've assembled quite a nice board – and maybe you can talk about assembling the board.

What have they done for you and other work you've done in terms of continuously to raise more capital as you grow the company?

Ron Feldman: Sure! So, the board of advisers that we grew over time, but the key advisory member that we got early on was a guy named Jimmy Yaffe, who had a lot of experience in the advertising and media industry, which was very core and central to more of the strategy that we're pursuing at that time. That lent us a lot of credibility, particularly in securing that investment with Hummer.

So, as first time entrepreneurs particularly, even though the idea was intriguing and we had a prototype of a product and a live site and service, because we didn't have proven traction, either with customers or users, having that credibility of being able to attract that kind of a person to our advisory board and having him actually speak on our behalf was incredibly helpful in actually getting that investment round.

Subsequent to that, we continued to build our advisory board on the basis of, again, people we met either through networking or through existing advisors and trying to plug wholes from the standpoint of credibility and advice and kind of industry experience. So, those people are helpful.

It's hard to find the right people and to convince them. It's harder still to figure out how you can have them engaged and then be of value in different ways because people have fulltime jobs and are busy and you kind of have to very much think very strategically about how they could best be used to help.

Dave Lavinsky: Right.

Ron Feldman: This is not always easy and then telling them and following up on that, but there's no question that having an advisory board is very helpful. I think your second question was about continued, look for funding?

Dave Lavinsky: Yeah, let me mention one thing on the advisory. I can't agree with you more on the advisor, getting advisors and adding credibility.

One thing that I like to say is that if you can't convince an advisor just to lend their time to you, how can you convince investors to lend not only their time but their dollars to you?

So, I think it's also a good exercise in learning to better sell your business, in going to sell your business essentially to advisors to get them onboard and then they obviously help in terms of raising the capital and as you mentioned, your key advisor before raising capital – that really aided in your process.

Ron Feldman: Yeah, absolutely! Figuring out who those right people are is also important, of who is going to lend credibility for the specific types of investors that you're targeting and the specific type of business that you have.

So, is your business a consumer business and would an advisor who has had success in marketing to consumers be helpful? Is it a B-to-B business and having an advisor who is either at one of your potential customers or has sold to one of your potential customers, etcetera. Those things lend a lot of credibility.

So, your second question was about continuous funding.

Dave Lavinsky: Correct.

Ron Feldman: So, we were very careful about how we allocated our budget for the money we had raised and we've done a lot of hard work on building our service and partnerships.

But, eventually, as a company like us who - we don't have a revenue to speak of and won't for probably some time. Eventually, you end up with a low cash burn, you do run out of money, you need to look for additional sources of funding. The direction that we took the business in, we had some great successes and great traction, but probably not as much as we wanted to do with that initial capital in terms of raising a traditional Series A round.

So, we went on to the marketplace, probably starting in about May of this year. It was also a particularly challenging time in the venture industry, but it was clear

that it was becoming difficult for us to raise a traditional Series A round of funding.

So, what we've done is decided to do a bridge round of funding and we convinced Hummer Winblad, our existing investor, to lead that bridge round of funding with another investment of $250,000 and then are continuing to try to add to that with some other early stage investors and then planned to use kind of 6 to 18 months to further our traction to then raise that next bigger round of funding.

Dave Lavinsky: Excellent! Can you define – a lot of people don't really know what a bridge is, if you can just walk through?

Ron Feldman: Sure! I think a lot of financing terms can mean a lot of different things. I think what bridge means to me is effectively around "in between rounds" so that traditionally, you would hope that rounds are both increasing amounts and increasing valuations of amount of money that you raise.

If you're not quite at the point to raise that next larger round and a larger valuation, getting a bridge or a smaller amount of money that will then carry you forth to the point where you have that traction, that's what I would tend to call a "bridge."

A lot of times, that's also done through the type of structure of the financing in that a lot of times instead of a equity round, it's done as a convertible debt note, meaning that the size of that equity that it would convert to is decided at the next round which you're hopefully bridging to. So, it's effectively a loan that would then turn into equity when that next round happens.

Dave Lavinsky: Right. Excellent! I appreciate you going through that. Maybe you can answer this key question which is, what are the top three to five questions that you originally had about raising capital and how would you answer

those questions now that you have a couple of years worth of capital raising under your belt?

Ron Feldman: That's a very good question. I think one big question was about the angels versus venture capitalists and the advantages of each and the difficulties of dealing with each and I don't know that I conclusively answered that question.

I do know that there are, even though it may not seem that there are differences in terms of financial structure, there's differences in terms of motivations and therefore involvement in your business.

It's not universal, but I think many angels partially invest out of passion and also have much lower required rates of return, whereas venture capitalists – especially if they have larger funds – can have limited amount of focus that they can afford to spend, as well as they have a much higher required rate of return.

Dave Lavinsky: Right.

Ron Feldman: In terms of finding them, I still think that finding an individual angel is not an easy thing to do and getting them, their deal processes are a little bit more opaque – and when there's economic uncertainty, they're probably more subject to that than venture capital firms are.

Dave Lavinsky: Right.

Ron Feldman: Some of my other questions I think might have been about how much money to raise. And I think I answered that a little bit before, in that I think you should always raise a lot more money than you think you need and not be greedy from the standpoint of valuation.

I think that there are a lot more important things than valuation both in the terms of investment and the amount of money that you raise and that raising a much smaller amount of money to get a better valuation is not necessarily helpful if you've got a business. So, I think that raising, especially in uncertain economic times, raising as much money as you're able to within a reasonable term and reasonable valuation is important.

I think the importance of finding both a partner and a firm, a venture firm or an angel that really shares your vision and your goals and also really can add value from the standpoint of strategy of introductions, is very important and is not very easy to do and not many people necessarily have the luxury of having all of those choices.

But certainly if you're targeting people to talk to, you should try to target people that you think would really mesh well with your company's culture and goals and vision and then also expertise.

Dave Lavinsky: Great! Agreed.

Ron Feldman: I'm trying to think of others. You said three to five if there's anything...

Dave Lavinsky: One thing you mentioned before, you alluded to angel groups and how you didn't think it was a fit for you guys. Maybe you can talk through your rationale behind that?

Ron Feldman: Yeah, I think it depends and I'm not sure that I know that that's for sure, but I think that the group mentality of professional angel groups, I think that they set very high bars for getting to present and for making an investment. And it's almost like the disadvantages of kind of the unanimous decision making of a VC firm, but also the disadvantages of not having a formal deal process in the sense that these angels can only still invest as individuals.

Dave Lavinsky: Right.

Ron Feldman: So, you have this screening process of this large group of people and these very specific requirements and then pitching and multiple sessions. You can get through that gauntlet only to find out that you have to still "herd cats," if you will, and find the right investors out of that group. Then try to herd them into doing a deal versus the structured nature of a venture firm is if you pass all those caps and all those gauntlets and you convince all those partners, you're going to get your investment. So, that's one of the things.

It's hard I think because you really expose yourself, especially if you have some kind of a product or a service you'd rather keep relatively to yourself. You end up exposing yourself to a group of a few hundred people, especially in a place that's kind of incestuous as Silicon Valley, is a challenging thing to do for a new start up to do without the high likelihood of success.

Dave Lavinsky: Right.

Ron Feldman: So, the actual deal terms, particularly in the Valley for angels in general, and not just angel groups seem to be much more similar to venture firms than they might have been five or ten years ago. So that the advantages, financial advantages, from that pure standpoint are not necessarily there either.

One point that I wanted to bring up that I remembered was, something that I didn't quite know as much about it, or I knew somewhat about it was the legal process and the legal fees associated with raising money are I think are exorbitant.

Dave Lavinsky: Right.

Ron Feldman: I knew that to a certain extent, it's just that it's almost surreal when you're going through it in terms of the lawyers negotiating terms that are standard and negotiated daily for all these different investments but it's almost as if it's never happened before.

Dave Lavinsky: Right.

Ron Feldman: Therefore, you pay for this fresh set of negotiations over the same terms that are literally being negotiated everyday. So, you're lucky if you can escape with $50,000 of legal fees from raising a simple seed round of an investment.

Dave Lavinsky: That has to do with mostly it's really an equity round. On a legal fee, how is that structured in terms of you guys didn't have $50,000 lying around before you raised your angel?

Ron Feldman: Yeah, so that number is combined. Also paying for our own legal fees and you have to pay for the venture firm's legal fees, which is just standard practice.

Dave Lavinsky: Right.

Ron Feldman: That just is, unfortunately. We had our attorneys agree to defer all of our legal fees until after...

Dave Lavinsky: After the rounds.

Ron Feldman: Yeah. That was even months before when we were bootstrapping and using them for incorporation and all sorts of other services. So that's somewhat unique to the Bay Area. Some other firms are willing to do that, but there are a lot of Bay Area firms that do that as a traditional practice.

That's another group of people we had to pitch as if they were an investor, in order to get them to agree to do that.

Dave Lavinsky: Got it. Particularly in other areas of the country you've got to sell your service providers, like legal firms, to do a lot of work up front without pay and defer their fees, because startups don't owe $50,000 in legal fees unless they've already raised that round of capital.

Ron Feldman: Right. That would be my other thing. The other thing, in terms of the timing and all of that, of the term sheet and the due diligence that someone to keep in mind is that process will move as quickly as the entrepreneur makes it move. It's to everybody's advantage to push that process as quickly as they possibly can and not wait for things to happen, from exchange of documentation to negotiations and everyday matters.

Unfortunately, I know of a lot of people who had term sheets and when 9/11 happened that were pulled on the basis of nothing else other than kind of global turmoil. So, things totally out of your control can happen. So, if you're counting on money coming in, you do everything possible to pull it in as quickly as you can.

Dave Lavinsky: Excellent. Let me just give you one last question sort of related to that. Can you talk a little bit about the time requirements as a CEO of a company looking for funding, in terms of what percentage of your day or of your week or month is spent in the capital raising process? I'm sure that varies from, as you mentioned, when you've got a term sheet on the table and things like that. So, maybe you can talk about the time commitment of a CEO in the capital raising process.

Ron Feldman: Sure. I think to do it right it needs to be nearly 100% of the time, unfortunately. It can vacillate between 80% to 100% but it's tough to have

time to focus on anything else if you're actively seeking meetings and having meetings and making changes to your business plan and your presentation.

I think the less percentage of your time that you spend on it, the longer that that time window will take in terms of how long it will take you to raise money. And, it may lessen the likelihood of you actually getting money altogether, and it also may reduce what you actually are able to get in terms of a deal.

From the stand-point that, ideally, you want to negotiate different investors against each other, and so have a whole bunch of terms sheets kind of coming in at the same time, at least interests coming in at the same time. In order to do that you need to have all those meetings simultaneously.

So, if you take one meeting a week, for, months on end, that's not going to work that way, sequentially, versus, if you take 15-20 meetings in one week or in a couple of weeks, or at least having them happen simultaneously giving yourself the shot of having multiple sets of interest come in at the same time and having that negotiating power.

Dave Lavinsky: Yeah. That's a key point. Just so everyone understands what Ron's talking about, if you have one term sheet on the table you only have so much negotiating power on what those terms are, but if you have multiple offers, that you can pit one investor against another to try to get the best terms, because everyone wants to invest in your company.

Ron Feldman: Yup.

Dave Lavinsky: Excellent. So Ron, I want to thank you, again, for your time. Everybody listening, once again, you could visit Ron's company web site at Kwiry.com, once again, that's K-W-I-R-Y dot com. I hope you all check it out. I've been looking at the site now for some time. It's a really, really neat

application and company to have there. So, Ron, once again thanks again for your time.

And everyone, thanks for listening.

Ron Feldman: Thank you.