Season 1, Episode 8, Taking a Punch, September 21, 2021

David Karandish: You could literally see across different data centers, and it was yeah, it was like watching a stock market crash or watching a … watching a fire slowly burn your house down. We had faced multiple asteroid events along the way. This just happened to be the one that made the big … the big craters and caused the dinosaurs to … uh … to run and hide and figure out all of a sudden mammals were in charge.

Kurt Greenbaum: From Olin Business School at Washington University in St. Louis, I'm Kurt Greenbaum and this is *On Principle*. Today, we're pleased to bring you our last episode in season one of *On Principle*, and it's really been a pleasure to share these stories and take a peek inside the minds of leaders, executives and entrepreneurs as they make pivotal decisions in their businesses.

Now, we're already hard at work on season two, but for today's episode, I want to introduce you to a Washington University alumnus who launched a business that failed and then another one that failed and another one that failed. Another did OK. In all, there were six companies that earned him—and these are his words—pizza money. And mind you, this was all before he got a college degree.

Then there was the seventh company. You may have heard of it—Answers.com. It was a spectacular success to the tune of about $960 million. Now he's on to his eighth company. And today we're exploring what he learned from those first six startups. How did the experience of those now forgotten companies prepare him to confront near disaster just weeks after launching company number seven? And when push comes to shove, does he even really think of any of those first six companies as failures?

David Karandish: I'm David Karandish, the CEO and co-founder of Capacity. Capacity is a support automation platform that is here to help your team do its best work. You can think of us as a combination of a help desk, workflow automation and chatbot. So, I had sold my previous company to a private equity firm, and after sticking around for a while, I just had this sense that it was time to take some time off, do something new. I had my long laundry list of all the different ideas I wanted to pursue, and I had a few months off and this was the one thing where I knew if I didn't start this company, I would regret it the rest of my life.

Kurt Greenbaum: By any definition, David Karandish is a wunderkind. In 2005, after those first six startups, and just as he finished his double major in computer science and entrepreneurship, David skipped graduation at WashU. Instead, he went to New York to become the youngest person ever featured on NBC's reality show *The*

Apprentice. David appeared on the spinoff series that starred Martha Stewart. Nine years later, he became a multimillionaire. Today, he's feeling pretty positive about the path for his eighth startup. After all those experiences, I just needed to know, like, man, has he ever just had a job?

David Karandish: I can remember even as a kid being in Cub Scouts for a year or two and I couldn't tie any of the knots or the ropes and the badges were falling off my uniform and my dad didn't camp. And, you know, wasn't my … wasn't my bag. But I can remember selling candy for the troop. And that being a really instrumental moment in my life, being able to sell an item I was very, very invested in at the time as a young kid—eating candy and selling candy—and that … that I saw a little spark of that skill set.

I'd always liked to create things, whether it's art or projects or different things. I loved science. I wanted to be a scientist or an inventor early on, and I get to do that. We actually filed our first patent at Capacity here recently. And so, I saw this kind of mix of love creation, liking to sell, liking the sciences, liking technology, teaching myself to code in high school and seeing all of this come together in the form of entrepreneurship. And so, yeah, I'm very blessed to be one of those people who got to live out a lot of their values and a lot of the things that they love to do in their work.

Kurt Greenbaum: Can you … can you tell us a little bit about *The Apprentice*?

David Karandish: Yeah. So, I was on the Martha Stewart *Apprentice*. They did a casting call at WashU. I ducked out of one of those accounting classes to go do … do the casting call … sorry …

Kurt Greenbaum: What year is this?

David Karandish: This was 2005. And then, I actually skipped graduation, I took my last exam in competitive strategy. I think I took it early so I could get on a flight, fly to New York and go compete in this ridiculous reality TV show. Of which I had a great time, I'd never been to New York, I'm 20 … 21 or 22 at the time and, yeah, had a … had a blast. In terms of who should have won, I am so glad I did not win *The Apprentice* because had I won *The Apprentice*, I probably wouldn't have started this last company, our previous company. So, I think it all worked out in the end.

Kurt Greenbaum: That's great. Was there something you did take away from that experience, though? Was that … did that inform or help give you some tools that you could use in your … in your own work?

David Karandish: You know, I think *The Apprentice* opened me up toward the power of your network. So, at that time, Yahoo! was one of the sponsors of *The Apprentice*. And they … I ended up contacting them when we were starting Find Stuff to be a comparison shopping partner of ours. They ended up being our largest revenue generator for the first six or seven years of the business that came directly from the time spent—the intro came from the folks, the time spent on *The Apprentice*. So, it was one connection that ended up being super impactful that I would have never predicted had I not gone on that crazy journey.

Kurt Greenbaum: Now, before we get too far ahead of ourselves, let's stretch our minds back and recall what the internet of 2005 looked like. At that time, we were still a year away from Facebook opening up to non-college students. We were also still a year away from Twitter and two years from the iPhone. So, social media wasn't a thing. Into that world, David and his business partner, Chris Sims, gave birth to another startup called Find Stuff.

David Karandish: It was a comparison-shopping engine. We started right after college, began building out a bunch of vertical-specific search sites—so, a health site, a travel site, a finance site and an auto site—and we needed content that would work for … for those various, you know, various verticals. And so, we ended up building a Q&A platform that we applied to those websites and we're like, wow, this is pretty interesting because we can add a lot of value to the advertiser for unique content. We can add a lot of value to the search engine—same … same thing—a lot of value to the user and kind of have this nice triangular value prop going.

Kurt Greenbaum: Pretty simple plan, right? On one hand, create an engine that lets consumers shop and compare prices for products and services such as health, travel and neighborhood services like plumbers. On the other, surround that engine with a platform to ask and answer questions about the products and services, a great way to build traffic to the products and services available on Find Stuff.

Now, back in the day, it turns out there was a publicly traded company already doing something like this. That was Answers.com. And, in fact, you would often find links to Answers.com resources on whatever Google search you might have been doing. So, in 2011, at the age of 28, David engineered the purchase of Answers for $127 million. He took Answers private and merged it with Find Stuff.

David Karandish: I think we knew we were on to something when we got our first check from our advertising partners and we were ahead of plan even that early on in the business. And so, you know, most people, so many people write up these business plans and they've got all these—“Ah, it's all going to be up and to the right and everything's going to be great.”

But I can remember, wow, we actually did it. Somebody’s actually paid us for this thing that we built and then seeing how that would unfold each … each month … month thereafter. So, yeah, it was a fun ride. And we went out, we bought the company, merged it with ours and then the big “what in the world are we going to do?” moment was within 90 days of buying the company, Google changed a bunch of their algorithms that favored more vertical-specific sites rather than horizontal sites. And our $127 million acquisition went unprofitable in about two hours.

Kurt Greenbaum: So, in those few minutes, the David Karandish version of Answers.com began to tank. To understand why, we have to remember that 2011 is still a long time ago in internet time. The internet as we know it is still young. Google is still young. They're still trying to figure out how to improve their search results. David's company was trying to deliver a lot of content over a broad range of categories.

And that day, Google basically said, look, our search algorithm is going to favor vertical content sites, sites like WebMD, which goes deep on health, Bankrate, which goes deep on personal finance. With the flip of a switch, Google changed its algorithm and punched a big hole in the advertising-supported business model Answers depended on. Is it sort of an instant reaction to say, OK, we're going to have to figure out a new model here, let's go to work, or was there a moment where you … you just let yourself have that despair and then … and then turn around and go to work?

David Karandish: Well, I think in the middle of it, we're just trying to make sure, OK, did we do something? Did we push some—yeah, I don't know—some "robots-dot-text" file out that our pages aren't getting crawled or did something. Like, we try to eliminate any … anything that we could have contributed. You know, there's that saying, "Never let a good crisis go to waste." And I think that … that one of the things that crises do is they help put you into ultra-sharp focus. And so, that particular moment allowed us to say, OK, well, we're going to have to be very, very focused on what this turnaround looks like and how we put it in place and what we do with the traffic we still have and how we think about growing in the future.

We had kind of two camps internally. One camp that was like, let's go fight the next … the next fight within the media landscape. And another camp that was like, we're so sick of being at the behest of these search engines. Let's … let's figure out an entirely new model. And so, we … we kind of like I said, we split the company into two parts. I ended up going into a major M&A mode and we ended up buying—I think I'm going to say six or seven companies in that next two years, two and a half years—and we had only done that one acquisition in the first six or seven years of our whole existence. And so, yeah, it was a very galvanizing event.

Kurt Greenbaum: So in … in the … I mean, obviously, we don't know what happened in the thought process at Google, but it sounds like what was going on was they're saying, look, in our judgment, consumers who are interested in medical information want to go deep into that topic or if they're interested in consumer finance or how to buy a house they're … they want to go deep into those areas. And so, that that that disadvantaged a site like yours, which was maybe an inch deep and a mile wide, where I can go and get a lot of information about a lot of different things. Is that fair?

David Karandish: Yeah, I mean, the website was built at the time around this idea of an open community of people contributing. But because of the wiki format, it was not a … there wasn't a lot of identity behind who submitted what. And so, you could see the response, but you had no idea who was the contributor behind it, what was their authority level. And we started applying some things to take, you know, social media profiles and append them and add additional pieces to it.

But the amount of brain surgery that that required while still trying to run a profitable business took a lot of … took a lot of time. So … we … Quora today does a good job of having profiles around people, but they spent a long time, many, many, many, many years unprofitably to do that. And if you … if you were the former CTO of Facebook and you … you've got many zeros in the bank account, you can … you can bankroll that sort of thing, but we were not in that position and we had multiple investors that wanted us to monetize quickly. And so, we had to figure out how do you … how do you rebuild in … in a new paradigm where your biggest source of traffic is no longer your biggest source of traffic?

Kurt Greenbaum: And … and you were dependent on that traffic, because as I understand, as I understand it, your model was revenue generated from advertising and this is what you were talking about working for that several-month period after this happened on developing a completely … a way to overhaul the business model. Can you talk a little bit about that?

David Karandish: Yeah, so one of the things that we saw early on was that the online advertising market was very inefficient. It's not like you go and you buy one share of Microsoft stock, you can't turn around and sell that for one share of Google stock or one share of Apple stock. Conversely, someone looking for shoes, someone looking for Nike shoes, they could go more generic and bump up to just general shoes and start looking at other brands. Or they could get more specific and click down into black Nike shoes or black Nike size 12 shoes.

And depending on what the keyword landscape looked like, sometimes you would end up paying more with more specificity, sometimes you would end up paying more with more generality. And so, there was an entire marketplace of trying to figure out what is the right way to advertise to the right consumer with the right intent over time.

At the same time, we saw the writing on the wall that Google was continuing to eat more and more of the … of the value in that particular space. And so, we said, well, we need to find new media channels to go after and we need to turn this thing into a subscription revenue business, because otherwise we will always be at the behest of the Googles of the world.

Kurt Greenbaum: And so, this is … this is where you're bringing in the talent that you need in order to create this subscription model. Can you talk a little bit about that, what that model was and how that ended up manifesting?

David Karandish: We saw that software-as-a-service business model is the closest thing to an annuity you can get in a … in a startup. And so, what we wanted to be able to do is launch, continue to launch what we're doing with Answers, but do it in a way where we could add questions and answers and reviews as a kind of a parallel that, well, we're not just doing Q&A on our website, but we can go syndicate that out across the rest of the internet.

And so, we bought a reviews company that did online reviews for different organizations. We bought another one that did content syndication for a lot of the biggest retailers out there in the world. And then finally, we added another one that did customer experience analytics—specifically around doing surveys and using methodologies to understand the mindset of your customers. And so, putting these together, we started from literally zero subscription revenue to over $100 million. I mean, we bought about $70 million and we grew it to another $100 million-plus.

And that led … led the foundation for us to be able to take on the next chapter. And we took a big punch, but we had been … we had taken a lot of smaller punches along the way. And so, if you're going to get up after taking a big punch, very few people can get up after taking a big punch if it's their first punch. But if you know how to take a punch, you know how to take a smaller punch, a bunch of smaller punches, it's just a little more painful rather than a devastating situation.

Kurt Greenbaum: Oh, that's interesting. Yeah. So, you sort of got some practice at failure before you were before you … well, I mean, is that a fair way of putting it? Practice at failure? Did … or do you even consider those failures?

David Karandish: I don't like to encourage people to fail, per se, but I encourage people to lower the cost of failure. If the cost of failure is low and you can learn early on, then that will increase your likelihood of success along the way.

Doug Villhard: It's one of those things where you hear the word failure and what does that mean to you? What does that mean to you? And I think a lot of times when it's happening, though, what we're thinking is, OK, that's not going to work, OK, what is going to work? What is going to work? And it never, never when he was leading his people did he say, OK, this thing's over, it's toast. He just said, OK, that I took a punch. I took a punch. I'm going to get I'm going to get back up and keep … and keep fighting.

Kurt Greenbaum: Doug Villhard is the director of the entrepreneurship program at WashU Olin Business School. And he's really got a passion for teaching students how to fall in love with a customer's problem on their way to creating a business. But he's not, strictly speaking, an academic. He's an entrepreneur himself with a few startups under his belt, one of which he sold recently for $30 million.

Doug Villhard: Sometimes, you know, what we want to do, especially in modern entrepreneurship, we want to do what's called fail fast, and David was talking about that, too, or fail, fail cheaply or fail more inexpensively. What he's trying to say there is, not everything we're going to do is going to work. The sooner we figure that out the better.

Kurt Greenbaum: You know, what it … what he learned at his first five or six startups and how he applied those takeaways to deciding what the next one was going to be and then the next one, you know, are there lessons there that … that you've brought out in your classes or are there experiences like that that you've had?

Doug Villhard: I think the perfect analogy there is dating, if you will, before you get married. And not necessarily dating an idea, but in this case, you know, dating other people, if you will, and trying to figure that out. And you learn things from different relationships that if you see the repeat of … you don't want to see the repeat of it in another … and some that you do. So, what he's starting to learn there is he's starting … starting to see, for example, you know, the … the how much time he spends on these as a constant.

You know, that's the one thing that we share with Bill Gates and everyone else is time … is, you know, it's the same. We share it. So, he's thinking to himself a lot how to be most profitable over that time. And he's also learning, too, that if he's going to spend his time on this, he wants to enjoy it as well.

So, that's the beauty of trying these things out before you find the one that works. And he didn't raise a bunch of money for all those ideas … in many … in the … he didn't have the term there either, but today’s term we call it side hustles. And I think that those are wonderful things, especially for students or those that have a full-time job as a parent or full-time job with being employed can try out some different things on the side to see what works, what you liked about it, what you didn't like about it. And we absolutely teach that concept as well.

However … however at Olin, we also want to go after really big problems, which then in turn equates to really big companies, and those can generally only be done if you go all in. But getting some practice ahead of time is fantastic.

Kurt Greenbaum: The other theme that I think really emerged is … and we started to talk about this earlier, too … specifically around the Answers.com story and the incident, you know, two or three months into his ownership of the company, when Google changed its algorithms and kind of cut the legs out from under … from under him and his team. You know, it sort of strikes me that there was a lesson there about how it's … how difficult it is if your fate rests in other people's hands. Am I taking too simplistic a look at it or ...

Doug Villhard: No. And that's what he learned. Right? So, what he was … what he was saying there after that was that he did improve his … he did look at the way Google changed and improved going forward. But what he basically said was after that, that I don't want to be dependent just on Google. And that's where he started getting enterprise customers and doing real sales. And—was it *Gone With the Wind*? Wasn't the last thing she … Scarlet … didn't she say, “I will never go hungry again”? Right? And those are … those types of moments. I'm not going to make that mistake again. I'm going to be more diversified to my revenue stream and I'm going to have more control over it.

Kurt Greenbaum: The other thing that came to mind sort of expanding on this idea of never letting a good crisis go to waste, it's about how do you find and identify those opportunities? And is this something that you talk to students about? You know, where are you looking for opportunities? Where is the crisis that creates the opportunity?

Doug Villhard: Yeah. And so, yeah. So don't get me going or you'll get my whole hour-and-a-half lecture on this very particular topic. But … but I will say this, that most … the concept … like, oh, Isaac Newton is walking down the street and an apple hits him. Right? And he's got a magical idea. Right? Well, if you dissect that for a second, he got hit with an apple. So, he asked himself, where the heck did that apple come from? Right? So … so what we're trying to teach people to do is to look at problems and challenges that are around them in their lives, in their careers and in their experiences and ask themselves how they could be improved and how they could be better.

And of course, the biggest thing we do that we teach at Olin is to fall in love with the problem itself, fall in love with the customer’s problem by really talking to them about it and analyzing it with them and as many as possible before you dive into the solution. And that's what David was talking about, too. Too often people fall in love with their own product and then it's too late at that point. A lot of times you built that product just for yourself, not necessarily for the market.

Kurt Greenbaum: I want to scoot back real quick to that kind of come-to-Jesus moment that he described a few months after acquiring Answers and, you know, getting their business back up. Have you been in that position? Have you had one of these moments in your experience or do you know others that have where it's like, what are we going to do now?

Doug Villhard: Yeah, all of us. All … all of us. All of us have one. And in some … some … some can't talk about it because it was the demise of their business and others of us that are practiced at it can talk about it after a period of time has passed, but we all have it. And that and I think that's … that's the real measure of leadership. And it's the real … the real measure of risk taking is what happens when things aren't going perfectly.

And honestly, honestly, in every single case that I've had, when it's over in the end, crazy things have happened. Like, for example, the employees love me more than they did before, trust me more. My father, my sorry, my father-in-law was a salesman, was a salesperson his entire career, and he would love it when his customers would have a big problem. Because he would love his opportunity to come in and solve it for them. You know, it could be a problem of service of their own product, come in and solve it and that endeared them to each other going forward. So that's the time to shine. Time to shine. And so, all of us have them. You know, David's in particular was a big one and … and a really defining point of it for …

David Karandish: I haven't … I have not met an entrepreneur who didn't love their own product. But I've met so many entrepreneurs who had no idea how to acquire customers. And so, I think that … I think it is an understudied area. I think it is under-taught area. I think people teach generalities. But the actual how do you … how do you put rubber to the road make that happen is very, very difficult. And therefore, it's … it's not well communicated.

Kurt Greenbaum: Are there any aphorisms that you've picked up over the years that help guide you in that area?

David Karandish: I think the first thing is sales covers a multitude of sins in this … in the entrepreneurship world, and what I mean by that is you can do all sorts of great things, but if you can't get people to buy your product, it doesn't matter. And so, for us, when we started, we said, if we don't get our first customer within the first six months, we are going to shut down and go for a different idea.

Kurt Greenbaum: This is when you started Capacity?

David Karandish: ... when we started Capacity. And we signed our first client, not—no exaggeration—month five, day 30. And we've been on a great tear ever since. But we were very, very up front when we … we started the company, we said, look, we've got to sign our first client in that first six months. Otherwise, for an enterprise, for an enterprise company like what we're doing, it just didn't make sense.

Now, don't get me wrong, if you're doing a … you're building an electric car, it's going to take time to do that. Maybe six months isn't the right window for you, but if you look at one of the areas of Tesla's success is really the first carmaker that I—or at least first carmaker at scale—that took preorders, big, major preorders before the product was really out and ready. So, that allowed them to prove the demand even before they … they had the supply.

Kurt Greenbaum: Well, this is interesting to me because, you know, there seems to be some tension between this idea that, you know, entrepreneurs fall in love with their products and they need to have some discipline about acquiring customers. I've also read you quoted saying something like … the thing … the number one thing entrepreneurs do wrong is give up when the thing goes … when the going gets tough. So, how do you know when you should give up?

David Karandish: I don't think there's a simple answer to the question, but I'll give you a couple heuristics I would use. I think one heuristic is how much of what you were trying to accomplish is a product-market misfit versus a complete-market misfit?

So, I knew when I started Capacity, there was a 100% chance that people would be automating support in 10 years, in 20 years, and I thought that would start happening in the next few years. I didn't just think that willy-nilly. We had significant amount of market data to back that up, so I felt like we knew our market size, we knew our market share, we knew our … our market was developing.

But how that product, how that product-market fit came together involved us talking with a significant number of customers. So, even before … before we launched our first … our first product, we talked to dozens of customers. Before we signed our first company, we had talked with, I’m going to say, at least 50 different prospects. And so those … those conversations informed a lot of what we did.

So, we weren't going in and making … making changes and iterations willy-nilly. We actually had data and themes that we saw emerge from those … from those discovery calls. And that was a big thing. We're like, OK, we're hearing these themes. We don't think these folks are wrong. How well does our product fit relative to these themes? And what can we do to … do to improve that?

Kurt Greenbaum: As we mentioned at the top of this episode, Answers.com was far from David's first rodeo, so I wanted to know: What happened to those earlier startups? Didn't he think he had a viable product to sell back then? What happened?

David Karandish: This is my … I'm on my eighth startup. I like to say the first six paid for a few pizzas in high school and college and the seventh one we had a good run at. And we're hoping that the eighth one is more like the seventh one than the first six. I like to think that entrepreneurship is all … it's not all about, but there's a significant component of pattern recognition that you pick up along the way.

And so, I learned early on with the web design business that I didn't want to build a business where my time was the limiting reagent to our success. I learned from the e-commerce business how thin the margins are in e-com, particularly in physical e-com, physical-good e-com. And I realized that it wasn't a model that I really liked. But in that business, we did a lot of search engine optimization and I used that in my … in my next company. And then the lead-gen business was like, oh, this is pretty interesting, but we don't have the right capital to scale that particular model. And there are a bunch of reasons for that.

And so, figuring out how each failure, I didn't … they weren't independent events. They actually informed the next entrepreneurial endeavor. In this thing I'm doing today, the software-as-a-service business model was a thing we added to my last company. It's the thing we started with here. Everything that we've done has been built on the learnings that have come along the way.

Kurt Greenbaum: And that's today's episode of *On Principle*. Thank you for joining us and many thanks to David Karandish for recalling this period of his life and to Doug Villhard for giving us a peek inside the mind of a startup founder. Be sure to visit our website at onprincipalpodcast.com for links to some stories about David's journey and to his new company, Capacity. We'll also share some stories about Doug's background before joining the faculty at WashU.

So, as I said earlier, this concludes the first season of *On Principle*, but we're not going too far away. Watch for a few bonus episodes over the next few months while we're putting together season two. And if you have ideas for season two episodes or just want to share your feedback, send an email to Olin podcast at W-U-S-T-L dot E-D-U. That's olinpodcast@wustl.edu. And of course, remember, you can visit our website to hear any episodes you missed or subscribe in your favorite podcasting app so you can be notified about new episodes.

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