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Beta Breakers

How to steer a course through the beta period and decide when to come out.

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CHURCHILL CLUB **Copeland:** One thing Google is great at is its beta-product approach to the world. It seems like that's the approach with every software company now: You put something out there, let people hammer on it, and then you constantly update it. Is that something you see among your portfolio a lot? And when does it work for startups?

Jacobs: No matter how smart the people are it's very hard to get the product or the service exactly right for your customer base the first time out of the shoot. You learn an incredible amount from your customers. We believe in just getting something in the marketplace and starting to work with customers. The customers will help you refine it to something that will be broadly applicable.

An open beta is one approach, but we love it when customers can charge their customers for that interaction. If you have a tight-enough, defined-enough value proposition, you can charge for it. It provides value to the early customers even before you've completely filled out the product suite and you're ready to take it to a broader market.

Copeland: Is there an instance where you would build a company without that approach? Phil, I don't know if you guys kept things hidden and then pulled the covers off.

Wessells: We have an objective to cover a lot of different areas we started in. One of those is in photo stream, so we have Flickr or Yahoo as a customer. Once we launched that, it became iterative. We get deluged with choices from people on what they want in these things. It's almost overwhelming but you want to get all that feedback so you can decipher the really good points and how you can adjust what you're offering accordingly. And then we'll unwrap the other sections we're going into and do the same thing.

Little: I'm not sure there's a recipe that goes across all opportunities. If it's a consumer internet service, it's hard for both an entrepreneur and venture investors to determine which ones of the thousands of companies out there will take off. Most of the companies are flat line, flat line, flat line. In that, at some point there's a knee in the curve.

Consumers are fickle. It's practical to get the software or service out in the hands of customers and use their feedback to help give them what they want. You can do that with things like closed betas with a small group and improve it. It's very different, though, than if you're, say, a heavy business model innovation, where you're addressing a problem in which there's a few choke points—like wireless carriers that are highly concentrated. There's no reason for you not to be a stealth company until you've launched with your carriers in the marketplace. Why tip off your competitors? And if you give a carrier code that's beta and flaky, you're out the door. They want four nine's of reliability.

If you have the opportunity, try to proof things out in a very small way. Just like you're proving your trading marketplace with DVD trading, you might try something in one category in one geography and wait until you can prove out your ability to, say, get traffic, monetize that traffic for a higher amount than it costs you to get it if it's a web play. And once you have that,you can put money into scaling it because you've proven it out.

Copeland: Billy, at PeerFlix, did you guys develop the concept, model, and user interface in secret an then launch? Because your idea is fairly unusual and I can see people jumping all over it like: Hey, that's a good idea … Let's do BeerFlix or something!

McNair: It's hard in the consumer space to do a stealth period. A wireless play can develop and get the technology ready, get partnerships live in the background, and then go to market. On the consumer side, it's difficult to do because the consumers are your market.

We had a pretty long extended beta period. It was 12 months. It's different for every company. For us, beta meant—for lack of a precise definition—we could go from a conference room whiteboard to the site and just try things out on the site. Beta was about putting in the consumers' mind-set that we're in a testing mode and we're going to be changing things on the fly based on their feedback. If the site is not beta and it's generally available, and a consumer logs in one day then logs in the next day and sees a completely different pricing model, that's a little bit alarming. In a beta period, it's a little more acceptable that people say, 'Oh, well they're in beta; they're figuring things out as they go.'

The determination of when to come out of beta was made when we got to our stable baseline. At that point, any service is going to change and be iterative over time. But the core of what we're doing, the core of the model, the core of the product and the pricing isn't going to change dramatically. It'll be modified and tinkered with as time goes on but the core was there.

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Audience Question: What is the density or the competitive advantage that you have versus a couple of guys in a garage that come up with the technology and launch the same service? Is it the IP that you have, the user base that you've built so far?

McNair: It definitely is IP and technology. There's core technology there that would be not only difficult to replicate but also time-consuming. That being said, there's a ton of smart developers all over the world that can do things at light speed. So I think it's about time to market. The company has been around formally for 18 months; the technology has been in development for almost three years. We have also focused on DVDs to establish ourselves in a leadership position in a market and try to distance ourselves from anybody else in that market.

This material was excerpted from the Building the Next Google conference, hosted by the Churchill Club and Silicon Valley Association for Startup Entrepreneurs. Michael V. Copeland led the discussion with Brian Jacobs,partner and founder of Emergence Capital Partners;Gary Little, partner with Morgenthaler Ventures; Phil Wessells, co-founder and president of Qoop;and Billy McNair, co-founder of PeerFlix.

This is part four of five articles covering a session was called "Building the Next Google."