

BUSINESS 2.0

WHAT WORKS

The Startup Oasis

By Michael V. Copeland, August 01, 2004

Go Global From Day One

Since everyone in Israel seems to own a [cell phone](#), Gal Nachum and Amir Peleg, the 38-year-old founders of Cash-U, certainly could have devised some product or service to satisfy the local market. But when you're thinking about crashing into the cellular arena, why confine yourself to niggling geopolitical borders? Why not, they concluded, go global?

Their challenge was in finding the right niche. Designing [games](#) for phones was rejected, because it was tough to come up with themes that would be universally appealing. What they could do, they realized, was supply a software platform to help others develop games for cell phones. Everyone needed that.

Once they created the product in their labs outside Tel Aviv, they homed in on the world's fastest-growing cell-phone markets -- Europe and Asia -- and promptly opened sales offices in London and Singapore. In each of the past two years, Cash-U's revenue has grown by about 75 percent, and the company has landed such notable customers as [Vodafone \(VOD\)](#) and Telefonica. "Since we can't depend on a local market," Peleg says, "we've had to face challenges that not many companies have to go through when they're young: Where do you open your offices? When do you split off research and development from your headquarters? We've had to do it from the very beginning. But it's evident today that if you're not global, you won't survive."

Take R&D on the Road

The model for most successful Israeli startups is to base [R&D](#) at home, where there are more scientists and engineers per capita than anywhere else in the world, and where technical talent costs significantly less than in the United States. The [marketing](#) and [sales](#) teams are then planted where the customers are -- New York, London, [Silicon Valley](#), Beijing, wherever. But what happens when some potential client wants to chat up the R&D guys? No matter how good the product, the customer is going to think twice before making that long trip to Israel.

Barak Pridor, 38, and Yonatan Aumann, 42, founders of software maker ClearForest, found the solution. They knew they had a great product: a program that can take unstructured electronic data such as a webpage or a video clip that has not been entered into a database or spreadsheet and analyze it as if it had been. But rather than wait and hope that serious customers would journey to their R&D offices outside Tel Aviv for a detailed demonstration, they pushed their engineers (normally a recalcitrant lot) out on the road. Today their scientists spend weeks at a time thousands of miles from home making presentations to potential customers or meeting with existing clients so they can tailor new products to fit their needs.

Staking the Winners

Company	Product	Total VC funding*
Cash-U	Mobile gaming platforms	\$39M
ClearForest	Text analysis software	\$33M
HyperRoll	Data aggregation software	\$28M

*In three rounds. Sources: Cash-U; ClearForest; HyperRoll

Founded in 1998, with headquarters in Boston, the 83-person company has raised \$33 million in three rounds of venture financing. In March it closed a \$10 million round led by Greylock. ClearForest's customers include Dow Chemical, Thomson Financial, and Shabak (Israel's version of the FBI), as well as the FBI itself. The startup's current annual revenue is around \$6 million, and ClearForest expects to have a positive cash flow by the end of the year.

It Takes More Than Shekels

As U.S. opportunities dried up, major VCs like Greylock began backing Israeli startups. Here's what they look for.

When the trap door opened and once-beloved U.S. tech companies began a free fall in 2001, venture capital investment shuddered to a halt and VC firms such as Greylock Venture Capital began searching for ripe opportunities elsewhere. Happily for Greylock, Moshe Mor, a partner in the \$2.2 billion Boston- and Silicon Valley-based VC firm, had just the ticket: Israel, where Greylock had never before spent a single penny. "The United States was going through an extremely tough time, but in Israel things have always been tough," says Mor,

Create a World Culture

Yossi Matias, CTO of Hyperroll, which develops software to help analyze massive databases, thinks Israeli companies often succeed because Israeli workers willingly put in grueling hours and, even more important, see their colleagues as a kind of second family, a feeling that engenders uncommon loyalty and, as a result, uncommon productivity. But part of HyperRoll's success, Matias adds, is the fact that the company goes far and wide for the best talent. "We build the strongest team possible, unconstrained by locality, affinity, or culture," he says. "It requires every employee to accept and support a multicultural environment."

So how do you transform today's increasingly diverse workforce into a cohesive family? HyperRoll president Rani Cohen says it's all about making everyone feel comfortable. For instance, when he staffed his Mountain View, Calif., headquarters, Cohen brought in Israelis to run the technical side and Americans to head sales and marketing teams. But to help integrate the Americans into what is essentially an Israeli startup, he banned Hebrew in the office. All conversations are held in English. To make sure new hires fit into the HyperRoll culture, personnel interviews are exhaustive -- and include both candidates and their spouses. Cohen takes plenty of time building his team, and is not the least bit afraid to cut people loose if they don't fit in. Fostering inclusion and shared goals is vital. "Success," Cohen says, "is creating a culture that can scale with you."

an Israeli entrepreneur who came to Greystone after founding his own IT services company, San Francisco-based SPL WorldGroup. "The companies created there know how to handle it; they're frugal, and they have always focused on fundamental technologies." Greylock has since put \$30 million to work in Israeli startups, including Cash-U, ClearForest, and HyperRoll.

Mor looks for three virtues in potential properties: unique technology, a good fit with a large market opportunity, and a management that recognizes its own limitations and will partner with U.S. executive talent. He finds it impossible to cover all the promising companies by himself. "There are just too many," he says. "VCs make money on intellectual property plays, and that's what Israel does best."

Get Rid of Your Golf Clubs

Jonathan Medved, a Jerusalem-based venture capitalist with Israel Seed Partners, whose investors include the founders of [eBay \(EBAY\)](#), Netscape, and [Yahoo \(YHOO\)](#), offers another reason for Israeli startups' triumphs in today's world economy. "We have crappy golf courses," he says, only half-joking. "In the U.S. you had a lot of guys check out after the bubble burst -- they went to the beach, played golf. You didn't see that in Israel. Nobody stopped. You can knock Israelis down, you can threaten to blow them up, but they won't stop creating companies." ◆