



The Talent Wars: Today's Toughest Startup Challenge

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Executive Summary

The toughest challenge facing most new technology companies these days isn't getting funded – it's hiring the best, most skilled employees. Heavyweights such as Google and Facebook can lure top talent with six-figure salaries, lucrative stock packages and lavish perks, including sushi buffets and free laundry service.

How can any startup or emerging company compete with that?

There's only one way: by innovating.

Newer, smaller companies have to work harder to attract high-quality people using a range of creative hiring strategies.

In this report, leading entrepreneurs, recruiters and investors share the best practices they've used to fight and win in the talent wars.

Startup founders like 42Floors' Jason Freedman explain why even in today's troubled economy, competition for top employees remains fierce, and your biggest rivals may not only be giant corporations, but the opportunity for workers to start their own companies. Venture capitalists like Jeff Clavier, managing partner at SoftTech VC, testify that if your startup can't attract top talent, it won't be able to attract investment, either.

So today's startups must "think outside the cubicle" with innovative hiring approaches ranging from dedicated courtships to generous equity percentages. They must recruit in unusual places and find ways to use the challenge, not just the compensation, to acquire and motivate star employees.

For startups, winning the talent wars may not be easy, but it isn't optional either.

Hiring Is the Hardest Part

Starting a company isn't what it used to be. In many ways, it's much easier.

Technology is less expensive. Cloud-based applications and infrastructure, as well as open-source software, are often very cheap or even free. Funding -- from angel investors, venture capitalists and crowdfunding sites -- is available in abundance, and many startups are finding they need less of it than previous generations required.

But launching a successful startup is now significantly more difficult in one vital aspect: hiring and keeping good people. While overall unemployment remains stubbornly high, there is a war for talent raging in the tech industry, and a lot of startups are losing the battle to attract and retain skilled employees.

Consider what they're up against. At the end of last year, Google learned that one of its top engineers was being courted by Facebook. So Google offered him \$3.5 million in stock. He stayed. Later, when Google was rumored to be sniffing around the team at Instagram, Mark Zuckerberg went nuclear and "acquired" the 13 Instagram employees for a cool \$1 billion, which comes to around \$77 million each. These days, even mediocre engineers in Silicon Valley are getting six-figure salaries and multimillion-dollar stock packages.

"The best people don't submit resumes or interview for jobs."

– Jason Freedman, co-founder of 42Floors

And it's not only the tech titans -- and their considerable resources -- that are making it hard for startups to land talent. As launching a company becomes easier and more straightforward a lot of smart people would rather start their own companies than go to work for someone else's. Result: a lot of open tech positions at startups and not enough qualified, committed people to fill them.

The number of startup jobs posted online in 2011 jumped 23.5% from the year before, according to data from StartUpHire.com, a job search engine for startup companies. But while 36% of all openings last year at the site were for engineering and technical jobs, those two sectors saw only 15% of StartUpHire's applicant pool apply for the positions.

Despite the many challenges, there are strategies startup founders can employ to find and keep good workers. They just have to think innovatively -- which, after all, is what entrepreneurs are supposed to do best.

Think Outside the Cubicle



Jason Freedman



The best startups hire the best people. And to convince those people to join their startup rather than some other startup -- or Google or Facebook -- they have to be willing to try something different. 42Floors is a Y Combinator-backed San Francisco startup that helps companies search for office space online. Recently, when 42Floors co-founder Jason Freedman decided to pursue a young, much-buzzed-about engineer, he went out on a ledge.

The engineer is tech whiz Dan Shipper, a University of Pennsylvania sophomore who has already co-founded several companies, including Airtime for Email. To get Shipper's attention, Freedman didn't send him an email or put a headhunter on his trail; he published an open letter to Shipper, entreating him to come to work at 42Floors. He praised Shipper's talents, described his hypothetical job at

42Floors and concluded: "This offer has no expiration and, regardless of whether you decide to work with us, I hope to personally be there on your side in everything you do."

Shipper declined the offer. And Freedman absorbed some ridicule for his public pitch. But he doesn't regret doing it. "The best people don't submit resumes or interview for jobs," he says. "All the great people we find come through courting. I don't care about the mixed response to my courting of Dan. Dan Shipper is a superstar. I know he's working on his own startup but if someday he wants a job, I want to get the call from him before Google does. The Googles of the world are good at getting on campus and giving these people job offers before they graduate, so it's hard for us startups to compete."

Freedman was successful in a long courtship of another target employee, Kelly Robinson, who did Airbnb's build out before deciding to move on. Freedman approached her, but she told him she wanted to take some time to travel around the world. For six months he kept in touch with her via Skype as she circled the globe. When she got home, she joined 42Floors.

The VC Perspective: Funding Goes to Companies that Can Hire Well



Jeff Clavier



Any startup that wants to survive, scale and succeed needs to be able to attract and retain talented employees. Smart entrepreneurs know this. Smart venture capitalists know it, too. That is why, in addition to brilliant people with disruptive innovations, they like to back startups that have a knack for recruiting and keeping talented workers.

“When we look at a company now as a potential investment, we try to understand the depth of the bench in place, what sort of contacts they have in the industry and can they credibly hire versus the competition,” says Jeff Clavier, managing partner at SoftTech VC. “We look for leaders who can attract talent better than others.”

SoftTech looks for founders who have not only technical smarts but also charisma -- an ability to project their vision -- and a long list of contacts. “If you’re not well-plugged in and have no ability to tap into this informal network of talent to bring your team together, it means your opportunity will be slower to build. And in this environment, there is no place for slow execution.”

Steve Jobs famously stormed around Apple terrorizing his employees. But the vast majority of startup founders are not Steve Jobs. They don’t have his brains or his billions. So they’d better have some people skills.

“The biggest risk a startup faces is the default process,” Freedman says of his somewhat unorthodox hiring methods. “If you do everything the default way, you will fail. When you follow the normal hiring process, with job applications and interviews, then you don’t have a superstar company.”

Freedman says it’s a fatal error for startups to just hire “foot soldiers.” To succeed, startups must go after employees who think big -- and these days, companies must be creative and aggressive to get them. “You’re trying to find someone who has the capacity to be an entrepreneur but who currently is not a founder of their own company. And at a time when it’s really easy to be a founder of your company and really rewarding, that means the total number of people in the startup employee pool is small.”

Play the Hunger Game

A lot of people outside the tech industry don't understand the culture. They watch serial entrepreneurs go from one multimillion-dollar cash-out to the next and wonder: Why don't these people retire to a tropical beach somewhere? Because the best brains aren't wired that way. They're hungry for new challenges, not money.

If your startup is working on an interesting problem, you can take advantage of that instinct. "If you're attacking something that engineers want to work on -- big fun problems -- then there's no problem hiring," says Jason Baptiste, CEO of Onswipe and author of *The Ultralight Startup*. "The opportunity to work on a technical challenge is something money can't buy. Highlight the challenge and the engineer you want may choose your company. Not many engineers at this point just want to go off and be one of a thousand other engineers working on the Facebook 'Like' button."



Onswipe helps publishers format their content for tablets. Baptiste says his company has been able to attract smart people because it's working on interesting applications in tablet touch. He doesn't sell potential employees on salary; he sells them the mission. And then he hopes they'll sell their friends. "If you have a mission, you attract people for the long haul, and they can help you recruit their network if they believe in what you're doing," he says.

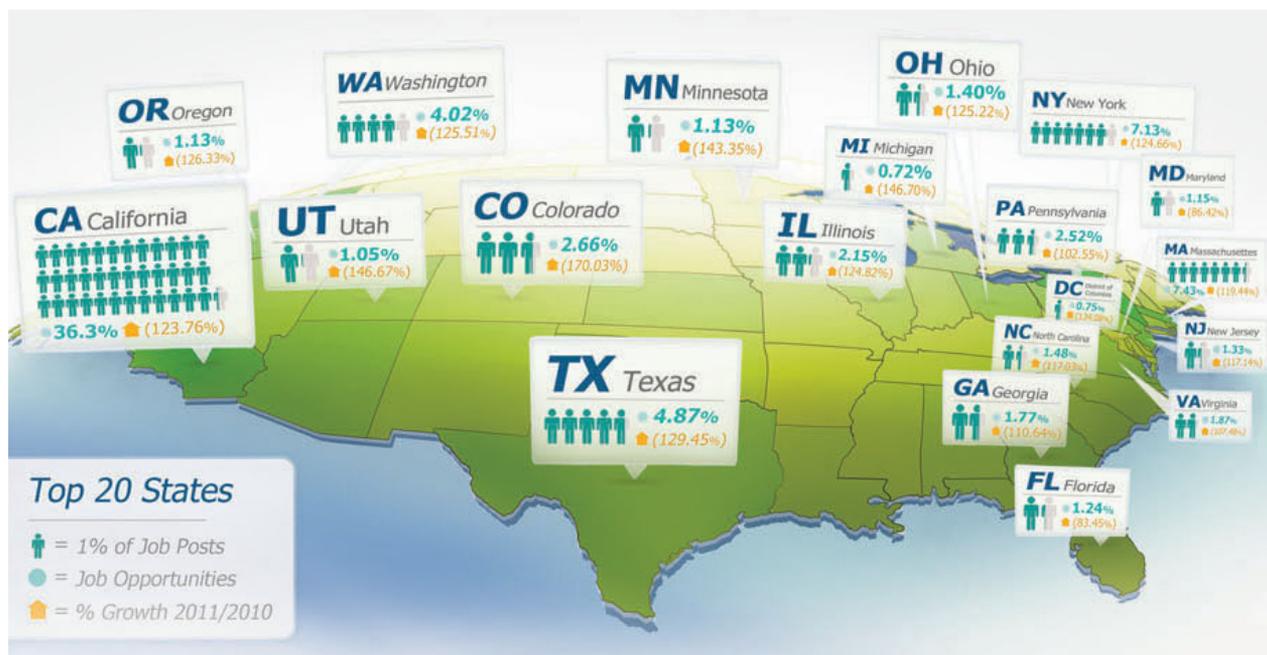
Onswipe has recruited people from around the world, mostly places not considered hotbeds of engineering talent. Its first engineering hire was in Mexico. Since then, the company has brought in people from Colorado, Miami, the U.K. and Hong Kong. "Our lead back-end engineer applied to work at Onswipe while he was living in Minnesota," says Baptiste, who estimates he spends half his time on hiring. "We've tapped into his Minnesota network to bring more engineers into Onswipe."

“Not many engineers want to be one of a thousand other engineers working on the Facebook ‘Like’ button.”

– Jason Baptiste, CEO of Onswipe and author of *The Ultralight Startup*

Avoid the “Hype Cycle”

That’s another piece of advice Baptiste has for startups in hiring mode: Don’t hire from a major tech city. His company is in New York but of its 14 engineers, only one is from New York -- and zero are from Silicon Valley. Onswipe doesn’t even recruit in the Valley, because Baptiste believes workers there are caught up in what he calls the “hype cycle.” “Many of those people have the ‘startup tour’ mentality. ‘Let’s spend six months there, and nine months there, and seven months here.’ There isn’t much loyalty. You want to hire people who are in it for the long haul, to build something they’ll work on for a few years.”

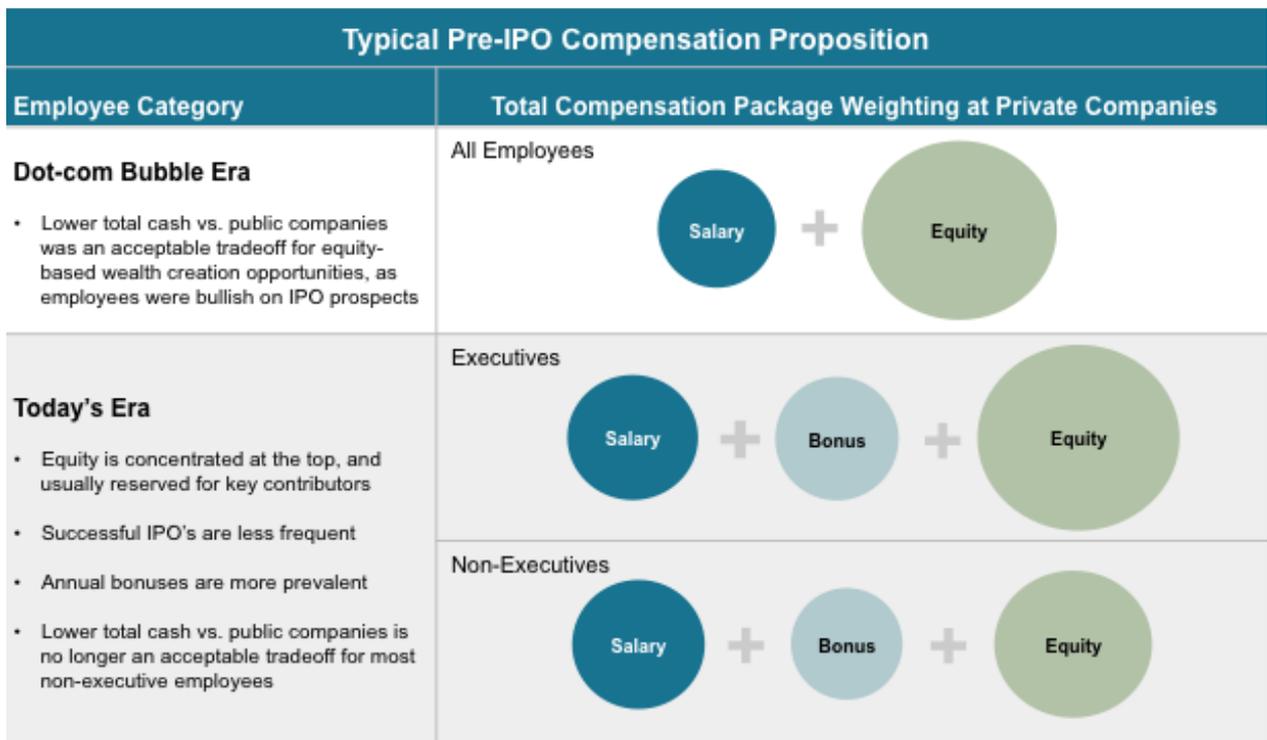


Source: StartupHire Infographic: Where the Startup Jobs Are

Similarly, he advises against recruiting from big-name companies, because once people have an established price, they get fixed on it. Instead, find raw talent and mold it. “If you’re hiring someone straight out of college, they have different circumstances than someone who is not. If they really love what they’re doing, an extra \$100K a year won’t matter that much. They care more about solving the problem.”

Be Generous with Equity

There's a reason why companies such as Pinterest, Dropbox and Square can attract top talent. Because they have product-market fit, they've achieved traction and they not only offer high salaries (and perks like free haircuts) but equity that someday may actually amount to real money. Most startups are far more speculative. So why should A-list engineers work for a paycheck at your startup when they can easily launch their own and get rich if the company succeeds?



Source: Radford Private vs. Public Company Compensation, April 2012



“Hiring for a startup is harder than raising money,” says Naval Ravikant, founder of startup advice site Venture Hacks. “It’s now actually easier to raise money. The first \$25,000 for product development is easy -- join an incubator. The next \$100,000 is easy -- investors are following incubators with automatic notes. That means everyone and their brother you would normally hire is now starting a company, so trying to hire people without having substantial traction is very hard.”

There is a solution: Give your first hires a substantial piece of equity in your company. But that's also very hard (in a different way) for startup founders. So most of them don't do it.

"These founders are still building their product, they have no customer demand and they own 30%, 40%, 50% each of the company," Ravikant says. "And then they want to go out and hire their first employees and offer them half a percent. That's just ludicrous, because they don't have anything yet of any great value."

“Hiring for a startup is harder than raising money.”

– Naval Ravikant, founder of Venture Hacks

So most people, at least the talented ones with other choices, say “No.” They're smart enough to recognize that half a percent of a long-shot is not all that valuable. Instead, they go to a startup that has product-market fit -- and better prospects of a big payday in the future. “Every other company must

now give up 10% to hire their first key employees. Treat early employees as late founders. That works. That will get you the talented engineers you need,” says Ravikant, who himself founded Epinions and Vast.com.

But most startup founders still don't get it. Ravikant also runs AngelList, an investor-entrepreneur matchmaking site that recently added a recruiting service for startups. The site asks startups that are hiring to state the salary and equity they offer employees, and Ravikant says he still sees many founders unclear on the concept of reasonable equity. “Some companies are offering \$80,000 and 0.1% and others are offering \$80,000 and 10%. When push comes to shove, the company offering 10% equity will absolutely get the better hire. Close the equity gap, and hiring will get a lot easier.”

Case Study: The Quixey Challenge

Quixey is a search engine for apps. The 28-person company is in Palo Alto, Calif., and CTO and co-founder Liron Shapira claims its standard is to “skim the top 1%” -- from high school or college, from big companies and from other startups. “We’re totally immersed in the talent wars,” he says.

To win those wars, Quixey came up with a novel approach: the Quixey Challenge. It’s a monthly programming contest online. Engineers go to QuixeyChallenge.com and try to fix a bug in a 10-line algorithm in one minute. Typically about 500 people take on each challenge, and about a quarter of them succeed. Those who do get \$100 and a T-shirt.



It may sound rather obvious, but it works quite well. The Challenge costs Quixey \$10,000 a month, half what it would pay a recruiter to hire one engineer. “Winning the contest doesn’t make someone a Quixey employee,” Shapira says. “But some of our best hires have come through the Challenge. We have one employee named Marshall who we hired through the Challenge. He was in Grand Rapids, Mich. He’s one of our best engineers but he has no college degree, and he was not in Silicon Valley. The only way you can find and hire someone like Marshall is to get creative.”

The challenge has also raised Quixey’s profile in the engineering community. There are Stanford professors who now assign the Quixey Challenge as homework. And on the Carnegie Mellon campus, Quixey T-shirts are more popular than any other company T-shirt, Shapira claims.

“If you’re a startup and want to grow to be a multibillion-dollar company, there has to be some secret that lets you do it. In our case, it’s hiring.”

Hire a Headhunter – and Move Fast

It may conflict with an entrepreneur's DIY ethos, but startups that need to hire should consider hiring a recruiter. Sure, headhunters can be expensive, but they can save valuable time and offer vital strategic advice gained through years of experience.



Robert Greene



“The only way to get creative in this market if you’re a startup is to pay really well... Some startups are giving equity to interns.”

– Robert Greene, founder of GreeneSearch

GreeneSearch has been filling technical jobs in the San Francisco Bay Area since 2004, and founder Robert Greene has an array of recommendations for startups in the market for talent.

“The only way to get creative in this market if you’re a startup is to pay really well,” he says. “It’s the cash and the equity. If someone is making \$150,000-plus at Google, plus stock, you’ll need to offer the same cash compensation at a startup, plus quite a bit of equity.”

Salaries for engineers at closely held tech companies in Silicon Valley have increased 20% to 30% in the past two years. A May 2012 study by compensation-consulting firm Radford shows a software engineer at a private company now makes an average of \$137,500 in salary and cash bonuses.

Greene says startups have to offer employees more than that, somewhere in the \$150,000 range. “That’s what startups are paying. That’s what they have to pay for talent. People are not taking a discount to work at a startup.” How competitive is it? Some startups are giving equity to interns.

It’s very difficult for anyone but a Sean Parker to pry top engineers away from the deep-pocketed, perk-filled campuses of Facebook and Google. So Greene says startups must use the assets they do have, like foot-speed and personal touches. “Small startups have to woo people -- take them out to dinner and send them gift baskets. And they have to move quickly. I can send a startup a resume today and have an offer in hand tomorrow. That’s an advantage startups have. They can move much faster than Facebook and Google. Those companies can’t hire people in one day.”

The Takeaways

Hiring in the new economy is especially challenging for startups. But these rules of thumb can ease the choices.

1. DON'T WAIT FOR THE PERFECT HIRE TO WALK IN THE DOOR.

They won't. Startups need to go out and find the people they need and then court them aggressively.

2. THE WORK MATTERS.

In many cases, top talent can be just as motivated by the challenge as by the salary you offer. Find ways to make the work interesting, and make sure potential recruits know about it. This is especially important to engineers and creative types.

3. DON'T SKIMP ON EQUITY.

It may hurt, but you need to treat your early hires as late founders. Half a percent equity won't attract talented people to your startup.

4. MOVE QUICKLY.

One advantage for smaller companies is that they have less red tape and shorter decision cycles. Make sure that you use that speed to your advantage. If you see a candidate you want, don't wait to make an offer.

5. LOOK OUTSIDE TRADITIONAL TALENT CENTERS.

These days good people are everywhere, so if you can't afford Silicon Valley prices, look outside Silicon Valley. A plus: Bringing in people from less-traditional locales may also result in increased loyalty.

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David Dunlap

CFO

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