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# THE MIGHTY MICRO- MULTINATIONAL

THE GARAGE GOES GLOBAL AS A NEW BREED OF STARTUP OPERATES WORLDWIDE IN THE BATTLE FOR TECHNOLOGY, TALENT, AND CUSTOMERS.

BY MICHAEL V. COPELAND

**W**HEN WORKING IN THE TROPICAL SUN BECOMES too much for Ivko Maksimovic, the lanky Serbian heads to one of the Dominican Republic's pristine white-sand beaches. He first gathers up a black hat, mosquito repellent, and a bottle of drinking water. Along with those essentials, he starts stuffing his black backpack with a tangle of computer cords, an extra laptop battery, a spare 160-gigabyte hard drive, and an EVDO card to connect to the Caribbean country's 3G broadband network. Finally, he adds a battered ThinkPad, a Skype-ready headset, and a cable lock to lash all the gear to a tree when he decides to take a swim. "It's very cool to think about important stuff while you fight the waves," Maksimovic says.

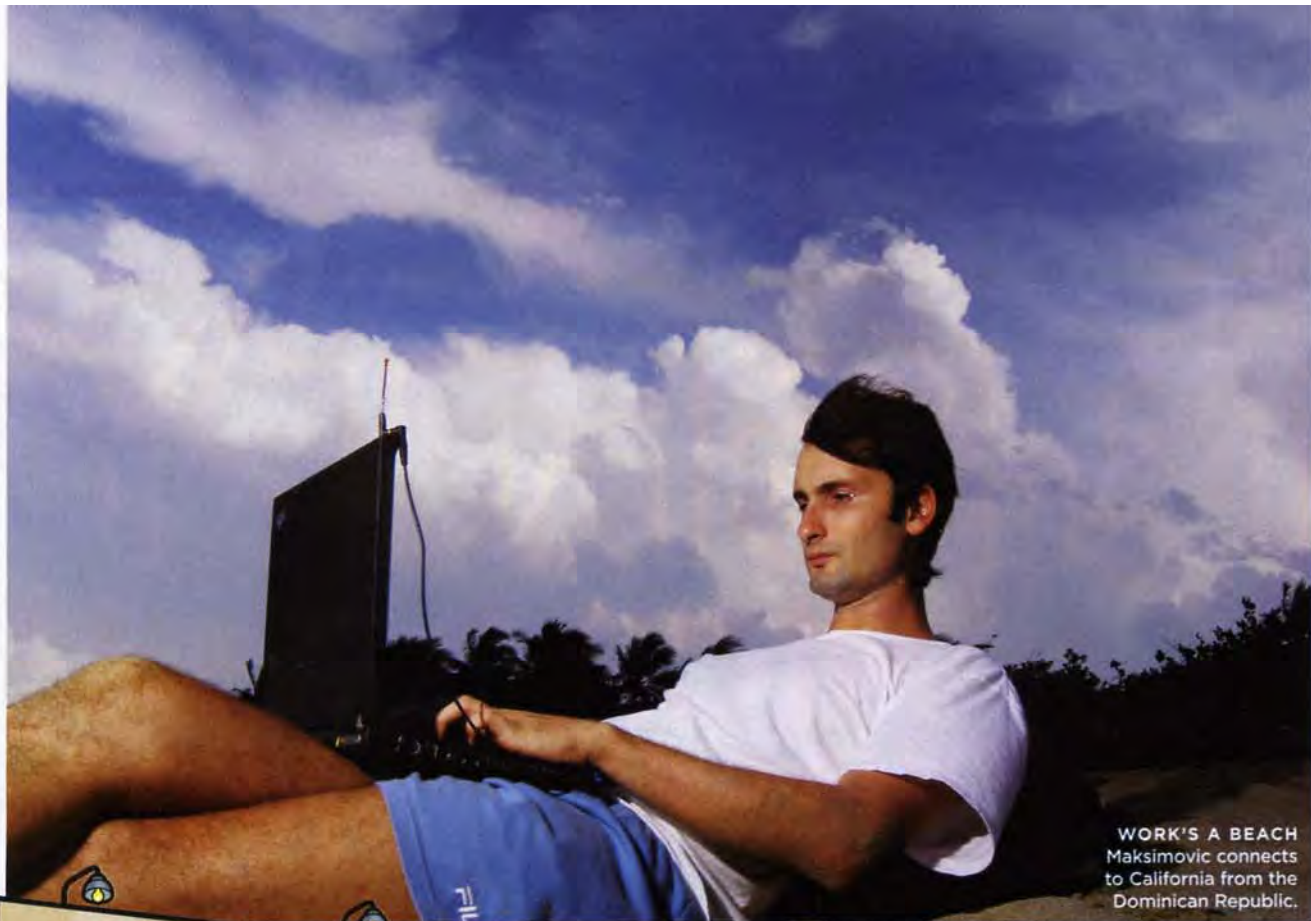
Maksimovic, 29, is the CTO of Vast.com, a startup search company based in San Francisco. He lives in the Dominican Republic because it's warm and far from Serbia's troubles. He works for Vast because his bosses think he's the best person for the job, and it doesn't matter much where he is physically as long as he has a broadband connection.

Between sessions in the surf pondering the arcana of

coding on a May afternoon, Maksimovic chats with Vast's main development team in Belgrade by instant message and checks in with a colleague in Ireland through e-mail. The rest of the executive team dials in from San Francisco for a rare spoken conversation using a Skype-enabled speakerphone. Recently back from a trip to the Dominican Republic himself, Vast CEO Naval Ravikant can't resist asking his CTO what he's wearing. "Short pants," Maksimovic says. "And nothing else." The three people in the fogbound San Francisco office let out a collective groan. "I wish we were there too," says Ravikant, a serial entrepreneur who co-founded comparison-shopping service Epinions.

Vast launched a year ago in its present form and now employs 25 people who work across five time zones, four nations, and two continents—all of which makes it a particularly striking example of a growing breed of startup that can best be described as a micro-multinational. According to the United Nations, in 1990 there were about 30,000 multinational companies. Today there are more than 60,000, and while the number of multinational companies continues to grow, their average size is falling. As micro-

ILLUSTRATION BY SEAN KELLY



**WORK'S A BEACH**  
Maksimovic connects to California from the Dominican Republic.

**THIS IS NOT MERE OFFSHORING. IT'S ABOUT BUILDING A COMPANY IN A WAY THAT WOULDN'T HAVE BEEN POSSIBLE TWO YEARS AGO.**

multinationals proliferate, they're creating an entirely new form of corporate organization—one with powerful advantages for startups and entrepreneurs.

Like ExxonMobil or IBM, these multinational startups operate all over the world, pursuing talent and markets wherever they find them. Unlike their corporate big brothers, which historically expanded internationally via acquisitions or after tapping out markets close to home, micro-multinationals are global from day one. A big reason is money, but the benefits go beyond building a company on the cheap. Micro-multinationals are designing new corporate cultures and processes to compete in an increasingly global economy. Bound together by broadband and jet planes, they're startups all the same, run with the same fervor and energy as any garage-born company.

This is not offshoring as the term is commonly understood, although it is an outgrowth of it. Micro-multinationals aren't just moving operations from high-rent locales like Silicon Valley to Bangalore and other bargain-rate boomtowns. From the get-go, micro-multinationals open up shop and recruit skilled

workers where it makes sense to do so. Are the ace coders in Estonia? Hire 'em. The COO would rather live in Sydney than Sunnyvale? So be it. The visionaries see Mongolia as a natural market for the planned product? Sign up some sales reps on the steppes. In short, these are true distributed companies; they're not merely handing off the scut work to overseas electronics sweatshops. "This is core stuff, very advanced technology," Ravikant says. "We are building a company in a way that wouldn't have been possible even two years ago."

Many micro-multinationals are tech companies, but the same technological and economic forces are driving even non-tech startups to go global. And if operating internationally was not an option for them until very recently, startups that follow may have no choice but to be worldwide.

**T**he micro-multinational is a creature of the post-boom era. Back in the bubble years, when venture capital flowed freely, startups could afford to hire as many people as they saw fit and pack them into the high-tech tenements that sprouted in San Francisco, Boston, and Manhattan. "In those days we wouldn't even consider splitting development teams between Austin and Silicon Valley," says Promod Haque, managing partner at Norwest Ventures, a Palo Alto venture capital firm. "It was seen as inefficient."

As the cost of hiring soared in Silicon Valley, that thinking changed. VCs like Haque began weighing efficiency against cost, and by 2000 it became commonplace for a startup to spin off operations to Montana or another lower-cost state. As

JON ANDERSON

## THE MIGHTY MICRO-MULTINATIONAL

for efficiency, the boom in broadband made online communication almost as good as face-to-face (and for some people-phobic engineers, even better).

Then came the tech crash, and VCs stopped handing out cash by the barrel. When the venture capital spigot turned back on a couple of years ago, startups were facing a whole new world. The United States was still where the money was, but VCs had grown stingy. No longer could you count on a bankroll of \$50 million or \$100 million to get your new new thing to market. These days a VC might hand out \$20 million over four years to invent a product and beat out the competition. If you want to develop your gadget in the United States, that money might let you hire eight to 10 people. Overseas, you might get 30 people—and you can pick from a pool of talented and battle-tested practitioners of virtually any business discipline imaginable, people who made their bones in Silicon Valley or on Route 128 before returning to China, India, and elsewhere to get in on the ground floor of the economic booms

in their homelands. That group includes not just engineers but also experienced operating executives, manufacturing wizards, bean counters, and sales gurus.

"It's not cost as much as it is quality," says Brad Oberwager, CEO of watermelon juice and fruit company Sundia. Oberwager runs the 20-month-old firm out of his San Francisco home but employs workers across the country as well as in India and the Philippines to serve customers in America and Europe.

Using systems that are entirely Web-based, a Sundia employee in the Philippines can take an order from a Philadelphia grocery store for watermelon juice made from Mexican fruit. The juice gets squeezed in Washington state, and payment goes to Oberwager in California, who then notifies his CFO in India that the money has been received. "I can get incredible people in the United States and abroad. But if my customer service budget is a certain amount, and I can get one person in the U.S. or three people in the Philippines, it's an easy decision. Not strictly because of cost, but because now I

### A JUICY EXPANSION PLAN

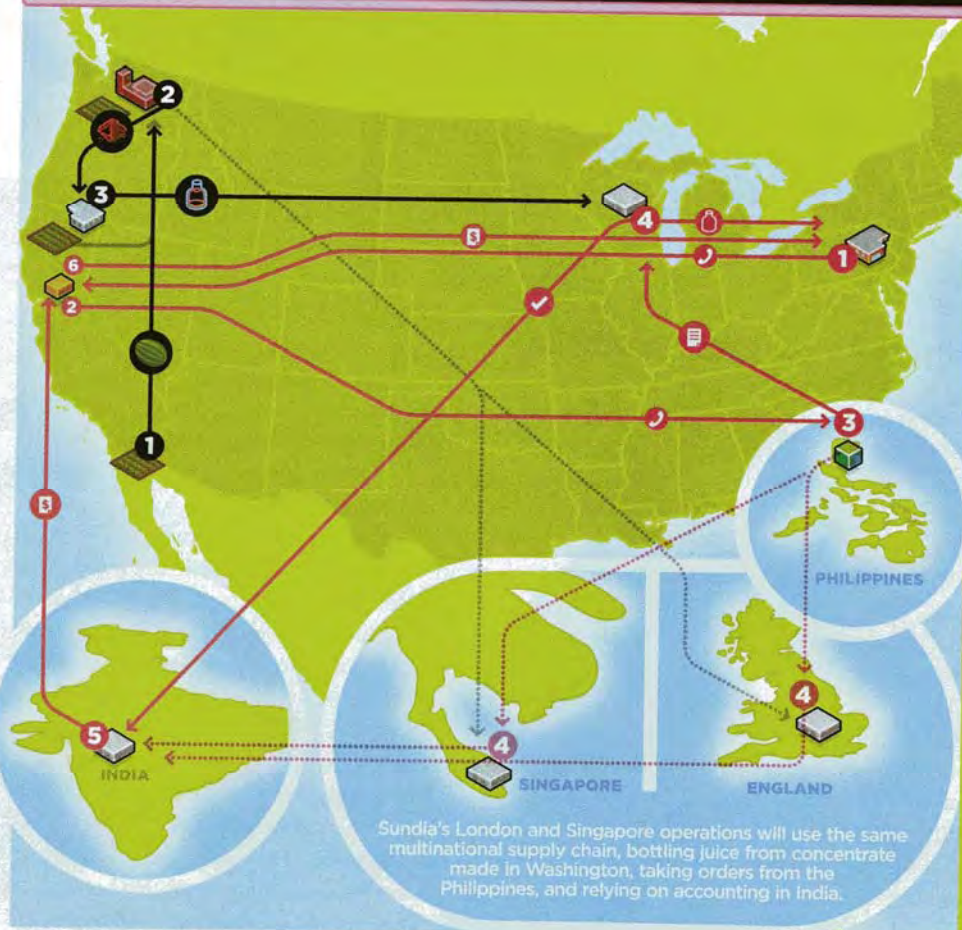
Sundia's business relies on the fruits of its global operations: The company's two-person headquarters is in San Francisco, its CFO works from India, and marketing offices will soon open in London and Singapore.

#### MANUFACTURING

- 1 Growers** ship fruit from Mexico and California to Washington state.
- 2 Processing plant** ships watermelon concentrate from Washington to bottlers in California.
- 3 Bottlers** turn concentrate into juice and send to warehouses in California and Wisconsin.

#### DISTRIBUTION

- 1 Customer** in Philadelphia orders juice by calling a number in San Francisco.
- 2 Phone system** forwards call to customer service in the Philippines.
- 3 Customer service** takes order and forwards it to the warehouse closest to the customer—in this case, Wisconsin.
- 4 Warehouse** ships product to customer and notifies accounting in India.
- 5 Accounting** generates bill and sends it to headquarters in San Francisco.
- 6 Headquarters** bills customer.



## THE MIGHTY MICRO-MULTINATIONAL

can serve my customers better.”

Not too long ago, the idea that one person could create an international fruit and juice business from his home office would have been preposterous. But technology allows Oberwager to efficiently move watermelons around the world and hire talented but lower-cost employees. Without Sundia's global reach, he would be forced to hire scores of American workers as health insurance and workers' comp costs skyrocket.

The advantages of the micro-multinational mean that just about all entrepreneurs pitching to VCs now need to be able to explain how—and how soon—they're going global to keep a lid on costs, operate 24/7, and compete with startups popping up from Mumbai to Madrid. “Assume that now, or a year from now, you are going to face lower-cost competition, with more people at their disposal,” says Deepak Kamra, a partner at VC firm Canaan Partners. “How are you going to handle that? If you are not going to set up operations someplace else, you'd better have a good answer for why you don't need to or when you plan on doing it.”

But Kamra and other VCs don't expect every entrepreneur to start digging out a passport. It depends on what you're selling and the competitive environment. If you're two years ahead of the competition, or the market has yet to develop, you might do fine with a small local team taking its time. “But if you have two competitors and you're the third guy into a market that is heating up,” says Northwest's Haque, “you need to come up with a plan for operations in another country.”

Haque's firm will rarely even look at investing in a new startup unless its model includes dispersing a major portion of its operations abroad. “You need to take an overall multinational and global approach to doing business,” he says.

Seems straightforward enough. The tricky part is actually doing it.

**P**ull apart most micro-multinationals, and at the center you'll find what Vast CEO Ravikant calls “the magic expatriate.” This is someone who bridges the United States and the other key locales for the startup. The magic expatriate knows and can translate the language, culture, and customs of the different locations. In Vast's case, this person is Boris Agapieiev, a Serbian now living in Portland, Ore. In 2000, Agapieiev assembled a team of coders in Belgrade that included Maksimovic and trained them in the



**HOMEGROWN**  
Oberwager runs a global juice business from his home in San Francisco.

**GOING GLOBAL CUTS COSTS BUT ADDS CHALLENGES. "YOU HAVE TO BE PSYCHOTIC ABOUT PROCESS."**

ways of a U.S. startup. Ravikant then came in and built on that core group. “You need to find that person,” Ravikant says. “Without him or her, it can be very tough.”

Oscar Agazzi is the magic expatriate at Irvine, Calif., chip startup ClariPhy, where he is

chief systems architect. About 18 months ago, the native Argentinean and Broadcom veteran proposed to ClariPhy CEO Paul Voois that they hire a team of graduates from Argentina's National University of Cordoba.

Why Argentina? The country has lots of talent but less competition for top engineers than tech hot spots to the north. That made it relatively easy for Voois and Agazzi to make the 18-hour trip from Southern California to South America and pluck eight of the best candidates for about a third the cost of hiring homegrown talent. “We can set a very, very high bar for the people we recruit,” Voois says. “And it's not a cost thing so much as the ability to hire more people for the same money. Because of that, we will have gotten to market faster and with a better product than if we had tried to do it all in Irvine.”

But make no mistake about it: This wasn't about heading south for some hit-and-run code crashing. Argentina became an extension of ClariPhy's operation and the South Americans an

## THE MIGHTY MICRO-MULTINATIONAL

integral part of its team. For Agazzi, that initially meant going back and forth on planes and the phone, acting as a middleman and, in some cases, literally as a translator between the two hemispheres. He brought the Argentinean engineers to Irvine for extended visits and made sure the team not only had interesting work to do but also delivered on its tasks. "We have developed a common culture that spans both teams and both countries," Agazzi says. "That is a very powerful concept that can grow along with this global company we are building."

**G**iven the time, distance, and cultural differences, it's easy for communication in micro-multinationals to go awry. While a company like IBM might be able to absorb the costs of miscommunication, delays and blown budgets can cripple a startup.

At a micro-multinational, you can't just walk down the hall and pop into a colleague's office to hash out strategy or clear up a misunderstanding. Instead, wikis—collaborative webpages where people can post and edit messages—are the virtual hallways and watercoolers of the micro-multinational. It's where colleagues trade information on everything from customer meetings to the latest intelligence on the competition. It's where management pushes the new marketing message or strategic shift.

Still, a micro-multinational does not run by wiki alone. For enterprise software and hardware company Sonoa Systems, that means weekly late-night conference calls from its Santa Clara, Calif., headquarters to the company's Bangalore outpost. Sonoa's 35-person software development team works from India while the 15 members of the hardware team and the company's executives and marketing and sales staff are based in Silicon Valley. Each Wednesday from 9 p.m. to well past 11 p.m. California time, the two teams connect online through a VOIP speakerphone and a projector hooked up to an Internet meeting service.

During one recent call, engineering product architect Mike Blevins and a counterpart in India, where it's 9:30 a.m. the next day, launch into the main topic of the week: protocols for debugging code. Every de-

cision made is entered on a spreadsheet or some other document available on the company's internal wiki, including Blevins's creation of a word to describe a particular class of software bug—*funcspecimpact*—that he wants to register with the Bugzilla database. "Going once, going twice," Blevins tells the team in India. "Done. Enable *funcspecimpact* in Bugzilla and put it on the wiki."

For fruit company Sundia, bug problems are more likely to be of the six-legged variety. But just like at Sonoa, everything at Sundia is written down. "You need to be absolutely psychotic about process to run a global startup," says CEO Oberwager. The company wiki runs more than 300 pages. It covers every conceivable procedure, from inventory and finance to how a customer service agent should answer a question about a bottle of juice that spoiled. The wiki's daily and weekly reports are available online to Sundia's 10 core employees and a group of key suppliers.

Oberwager has found that you can't micromanage a micro-multinational. Instead, he focuses on the big picture. As long as the vision he sets and articulates to his team gets realized, Oberwager is unconcerned with how it happens. "Our culture is all about results," he says.

**O**f course, no micro-multinational wants to remain micro. While the long-term viability of the model is by no means ensured, there are already some success stories. The most spectacular is Skype. Co-founders Niklas Zennström and Janus Friis pioneered the micro-multinational when they started up the Internet file-sharing service Kazaa in 2000. The Swedish Zennström and Danish Friis operated from Amsterdam, employed programmers in Estonia and elsewhere, and forged partnerships with companies in the United States and Australia. Sued by the entertainment industry for copyright infringement for the billions of songs illegally traded on Kazaa, the pair moved on to Skype, applying the same micro-multinational business model and file-sharing technology to the Internet phone service. The payoff: \$2.6 billion when they

### THE MICRO-MULTINATIONAL TOOL KIT

Building a global startup? Start here.

**VOIP:** It makes calling anyone on your team, anytime, a nonissue. Skype is the overwhelming favorite because it handles larger conference calls well. Be sure to get both SkypeIn and SkypeOut. Other popular services include Gizmo Project and Google Talk.

**IM:** Get Jabber if you want your message stream encrypted. You host it yourself. Otherwise, use whatever flavor IM you like: AIM, Yahoo Messenger, MSN Messenger, or Google Talk.

**WIKI:** This will be the central repository for your entire company. MediaWiki is the favorite. PBWiki is another simple and free choice.

**GOOD SPEAKERPHONES:** Phoenix Technology makes slick portable speakerphones that are Skype-ready. LifeSize makes a great VOIP-ready speakerphone for a conference room. If you have more than 20 people in an office, consider Cisco IP phones.

**ONLINE MEETING SERVICE:** GoToMeeting is good and reliable but can be a bit pricey if you don't use it much. Free collaboration service Hive7 is up-and-coming but requires some geek know-how.

## THE MIGHTY MICRO-MULTINATIONAL

sold Skype to eBay last year.

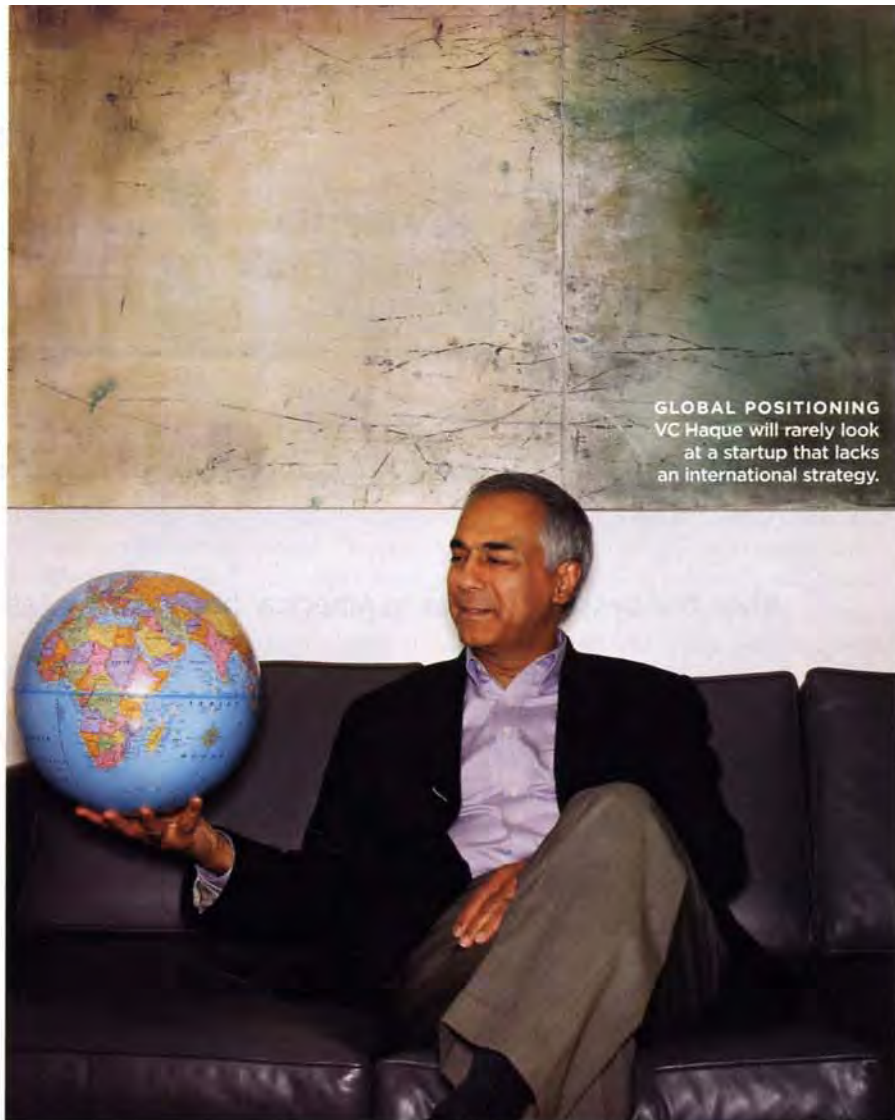
Online printing company VistaPrint also has proven micro-multinationals can be built to last. Founded by American Robert Keane in Paris in the 1990s after he finished business school in France, VistaPrint now has its headquarters in Lexington, Mass. But two-thirds of its more than 650 employees are located outside the United States—in Canada, the Netherlands, Jamaica, and Bermuda. The Stateside office houses Keane and the executive team, along with most of marketing and software development.

The company's global footprint has helped VistaPrint net millions of customers in 120 countries and revenue of about \$133 million over the past 12 months. VistaPrint went public on Nasdaq last September, and as of early June its stock had risen 116 percent, giving it a market cap north of \$1.3 billion.

VistaPrint's European roots forced Keane to build his technology and company to encompass different nations and languages. "The United States is blessed and cursed with a huge domestic market," Keane says. "It's often hard for startups to find their way out of their home nation. But you have to—it's not that type of world anymore."

That kind of thinking made it easier to go after customers worldwide, as well as to understand how to localize 16 separate websites to serve them. When Keane moved VistaPrint's headquarters to Massachusetts, he went to Jamaica to establish his customer service operations because it was relatively close geographically and culturally to the United States. Building a cohesive company across five nations is a constant challenge, he notes. "You try to promote universal values that apply to everyone," he says. "That means trying to have a great work environment for everyone, and being the employer of choice every place we hire. But it's very hard."

Still, the business model's strengths far outweigh the deficiencies, says Marten Mickos, CEO of open-source database company MySQL. The company, based in Uppsala, Sweden,



**GLOBAL POSITIONING**  
VC Haque will rarely look at a startup that lacks an international strategy.

**THE MONEY VCS WILL GIVE YOU TODAY  
PAYS FOR ABOUT 10 U.S. WORKERS.  
OVERSEAS, YOU CAN HIRE 30—FROM A  
POOL OF WORLD-CLASS TALENT.**

and Cupertino, Calif., has cells of employees all over the world. If there's a new customer to chase, a potential hire to woo, or a tempting market to break into, there's probably a MySQL person already on the ground to help.

"We don't think twice about going anyplace in the world. We just go," Mickos says.

That's the same attitude that has Sundia's Oberwager selling Mexican watermelon juice to Philadelphia grocery chains via the Philippines. And it's what allows Vast's Maksimovic to beat the Google army to the solution to a search problem while surfing waves in the Caribbean. "You don't need much to get things done," Maksimovic says. Just give him an Internet connection and a good power supply. Oh, and throw in a new hard drive about once a year. The salt air is murder on those things. ■

*Michael V. Copeland (mcpeland@business2.com) is a senior writer at Business 2.0.*