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ENTREPRENEUR Q&A

"You Must Hire the Right People"

So says Chili!Soft founder Charlie Crystle, whose candid comments about his startup are a sobering lesson for starry-eyed entrepreneurs

Back in 1996, musician-turned-entrepreneur Charlie Crystle teamed up with a group of fellow software developers in his hometown of Lancaster, Pa., to create Chili!Soft, an outfit that would be sold to Cobalt Networks for \$70 million before passing to Sun Microsystems in September, 2000. Crystle, 35, was long gone by that stage -- literally. Burned out by the stress and hassles of shepherding a startup from conception to success, he spent two therapeutic months relaxing in South America, where he made three decisions.

The first was to donate the bulk of his newly acquired fortune to charities fostering development in the Third World. The second concerned his next planned venture, Mission Research, which was inspired his observation that nongovernment aid agencies need software that reduces administrative overheads and allows more money to be spent in the field, where it can do the most good.

And the third decision? As Crystle explains to BusinessWeek Online's [Alison Ogden](#), it was to avoid at all costs the sort of pitfalls and personality clashes that he now blames for robbing Chili!Soft of its chance at an IPO. Edited excerpts of their conversation follow:

Q: Charlie, let's start at the beginning. How was Chili!Soft born?

A: I started Chili!Soft out of the ashes of my services company, which was hitting some singles but no home runs. We had developed some cool technology and I saw "home run" written all over it. So, in 1996, we changed course.

Q: How did you initially fund the idea?

A: Through the remnants of the services income, then mom. My friend Paul Zimmerman bailed us out when the sheriff came around to shut us down for nonpayment of bills in the summer of '97. But it was mostly Mom -- she took loans against her house, and I took no salary for about a year. Things were really cooking for me and my team...best of PC Expo, lots of attention from Microsoft, real customers. We all knew something big could happen.

Q: When did you guys get your first big investment break?

A: When [VC outfit] Draper Fisher Jurvetson (DFJ) gave us a term sheet. We had a consultant who had negotiated the deal, and had negotiated herself into the president's slot without my knowledge, so her name was on the term sheet as the signatory. She miscalculated. DFJ was happy to fund us with or without her, so we went ahead without her, and went with another CEO -- yet another big mistake. We signed the deal at midnight in a casino bar in Las Vegas!

Q: It sounds like there were some leadership and management decisions you regret making.

A: DFJ worked with me well early on to help build the initial team. We all made the mistake of not vetting the proposed management team well enough, and we ended up hiring people whose performance was mediocre. We had a lot of questionable advice from mediocre consultants but we didn't know any better at the time because everyone had what seemed like impressive experience to us and they all seemed like nice people, and DFJ isn't in the business of deep background checks.

Q: Would things have turned out differently if you had done comprehensive background checks?

A: We would have had a better company and gone through a lot less pain. We would have had a shot at an IPO.

A: How did you handle internal conflicts with the managerial team?

Q: Well, I felt within a few months that the first CEO wasn't appropriate for this particular job, which made it hard to get along because I thought we were wasting the investors' money and failing to execute. He emphasized hiring a

sales force when we didn't have any product ready for prime time, hadn't conducted formal market research, and didn't have a good understanding of the best strategy for our technology.

It took about five months of trying to get DFJ to understand the situation. Eventually, DFJ realized he wasn't the right guy and we made the necessary change, but I took a lot of damage in the process -- it was very traumatic. Ultimately, I turned the company around, and improved the numbers to a point where the investors were happy again, but both the company and I never really recovered enough from the politicking that happened during the period. I had a choice of whether to keep things together or clean house. I chose to keep things together because I was tired of the brutal environment. I should have cleaned house.

Q: When you were in the thick of it, you didn't have the perspective on the situation you have now. What was your viewpoint at the time?

A: At the time, I didn't know any better. I was told that you raise money and then hire people who know how to build software companies. To some degree, that's what you should do if you don't have prior experience -- but you definitely must hire the right people. I trusted people. I generally trust people when I meet them, and I generally give them the benefit of the doubt -- which is a great, optimistic, human quality. Trouble is, it leaves you terribly exposed to a wide range of problems. So yeah, I made a mistake because I trusted a lot of people who ended up taking advantage of me, my team, our employees, and DFJ.

A: So, you would build your team differently now. Is there something you could have done differently then to avoid unwelcome consequences?

Q: There were a lot of hires we never should have made. When I recognized the mediocrity and the selfishness of a number of folks, I should have just cleaned house. The number one thing you need to understand about building a company is that mediocre people drag down excellent people -- they are cancer and you need to cut them out as fast as possible. Don't worry about creating holes in the company -- excellent people are much more productive when mediocre people are removed from their environment. I should have pared it down to the core True Believers. The investors would have hated me, but six months later, when we were cash-flow positive, they would have come back around. Turns out, they weren't that fond of me when I kept the mediocre management team together, anyway. What can you do?

A: What were some of the consequences the company experienced because of mismanagement and inside disagreements?

Q: Mismanagement cost us our IPO, which maybe cost me and the investors \$100 million, and the employees something more than that. We had brochures but no market research. The last CEO met with only one customer. One vice-president consistently threatened to walk unless he got his way, and he never got fired. Advice? Fire anyone who tries to hold you hostage! We had one of the best software opportunities in history and squandered it.

Q: So, now you're bouncing back with more tech innovation. Tell me about your new company, Mission Research?

A: Mission Research is an advanced software-technology company dedicated to helping nonprofit organizations (NPOs) focus more resources on core missions and less on running their operations. We spent the first six months conducting research before writing any code. We were stunned at the complete absence of affordable, easy-to-use software that doesn't require training. Those were the top three things NPOs asked for: Give us software that's easy to use, that doesn't break our budgets, and that doesn't require training. We looked at the top 30 software packages out there and were surprised to see how bad they were. So, we're going to do better...the NPOs can spend more time saving the world instead of paying their mission money to mediocre software companies.

Q: How are you going to find the key players this time?

A: I'm starting with a core of True Believers: the core team from Chili!Soft, some friends we made in the corporate commercial-software industry, and some top recommendations from trusted sources. We're taking our time with building this company, so there's no rush to fill positions with people of unquantifiable characteristics. I'd rather have some empty positions than positions filled with mediocre people unwilling to make the commitment to themselves and the company to do great things.

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