



# Needed: Goliaths instead of Davids

Israel needs more than start-up exits, it needs companies that can scale up to global giants. Web builder Wix is taking up the challenge

**IF YOU** like the way Israeli entrepreneurs sell their start-ups – ideas and brains for big bucks to foreign companies – you must truly love what happened in January.

In that single month, six Israeli start-ups were acquired by US companies for a total of \$862 million. The biggest single deal was Amazon's acquisition of Anna-purna Labs for \$350-\$370 million. This is more than double the pace of exits in 2014, when Israeli start-ups were acquired for a total of \$4.3 billion. The peak year for start-up acquisitions was 2006, when they totaled \$10 billion.

But, if like me, and like the website builder Wix, you believe Israel's thousand-odd little Davids born each year should grow into global giant Goliaths, yielding far more income, jobs and wealth for Israelis, then you are saddened by it.

What's wrong with selling your brains at highly inflated prices? According to Bloomberg's Global Innovation Quotient, Israel ranks second in the world in Research and Development intensity (investment in innovation), but only 21st in high-value manufacturing and 31st in patenting activity. Put simply, all those great R&D ideas migrate abroad, doing little good for the citizens. The proportion employed in high-tech has actually declined, from over 10 percent of the workforce in 2006 to 8.9 percent today.

The British financial weekly *The Economist*, citing "The Start-up Ecosystem Report," ranks Tel Aviv as the world's second best start-up ecosystem second only to





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Silicon Valley. But, according to the French business school INSEAD's Global Innovation Index, Israel ranks just 42nd in the world in the efficiency of converting innovation investment into innovation benefits for the nation such as jobs, exports and wealth.

This is the dark side of Start-up Nation.

One reason Israel has a booming "cyber" industry today is the numerous start-ups founded by former employees of the global network security giant Check Point Software Technologies, founded in Ramat Gan in 1993. Had Check Point not remained independent, this probably would not have happened as Check Point, in fact, became a powerful "graduate school" for entrepreneurs. Alas, alarmingly few start-ups mature into independent global companies.

Why should a successful growing start-up say no to a bountiful exit when offered a big check by an acquiring company? And why do Israeli lawmakers and regulators make it so hard for start-ups to scale up and become profitable global giants based in Israel?

To find out, I spoke with the founders and senior managers of Wix, a Tel Aviv-based company founded in 2006, whose platform enables some 59 million users to create websites and mobile sites. Wix chose to do an initial public offering (IPO) of its shares on the NASDAQ stock exchange on November 5, 2013, while also listing its shares on the Tel Aviv Stock Exchange. Wix raised \$127 million and the IPO made its shares liquid while enabling its investors to take their profits if they wished.

The capital Wix raised is helping it grow and expand globally and, most important, innovate new products and services. Wix used some of its cash to pay for an expensive fourth-quarter Super Bowl commercial. I watched it and recalled how Lotus 1-2-3 founder Mitch Kapor spent his last million dollars on such a commercial in 1984 and saw his spreadsheet product take off as a result.

Wix's 2014 revenues were a respectable \$170 million, though the company is still young and understandably not yet profitable. The champagne-popping exuberance of a successful NASDAQ IPO was followed by a year of hard, grinding challenges simply to meet the requirements of financial reporting and regulators in both Israel and the US.

Unlike many start-ups, Wix turned down tempting acquisition offers. I asked the three founders – brothers Avishai Abrahami, CEO, and Nadav Abrahami, VP Client Development, and Giora Kaplan, Chief Technology

Officer – why they chose to scale up instead of exit. They answered my queries in writing.

*The Jerusalem Report: How did you get the idea for Wix?*

**Wix:** "The company was founded by us in 2006. At the time we were working on a different start-up idea for which we already raised some investment funds. While constructing the website for that start-up, we quickly discovered that creating our own website was difficult, frustrating and very costly. It was this experience that led us to a light bulb "Eureka" moment – build a platform that empowered anyone to create their own website with no coding or design skills needed. With the support of our investors, who realized the potential of this new direction, Wix was born."

IN PRINCIPLE, HELPING  
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OUT IS GOVERNMENT  
POLICY. BUT, IN  
PRACTICE ...

*What were the main obstacles you encountered in getting started? How did you raise funds?*

"The main obstacle we should have faced was convincing our investors that the new idea we were proposing was more impactful than the original idea they had signed up for – a cloud storage-focused endeavor. We were privileged to have amazing investors from the very beginning who not only believed in our idea but believed in us as entrepreneurs. Before going public, Wix was backed by investors Mangrove Capital Partners, Bessemer Venture Partners, Benchmark Capital, Insight Venture Partners, and DAG Ventures."

*Today, Wix employs 800 people, of whom 600 are in Israel. Wix's vision is to scale up and grow globally, but many aspects of Israeli regulations and regulators seem to hamper this. What difficulties are you encountering, in trying to scale up rather than do the conventional "exit"?*

"There are certain regulatory issues that are both harmful and unnecessary, and we hope that the government will take action sooner rather than later. With that said, we have developed a product that is changing the way that people all around the world interact

with the Web. We have over 59 million users worldwide but we've only scratched the surface of our addressable market. We are so proud of what we've achieved at Wix, but we've only scratched the surface of its potential. It was very important to us to try and follow our vision through, as opposed to selling it to someone else."

*Wix faces stiff competition, though so far you're the only web builder globally that has done a successful IPO. What are some of the future innovative ideas you are considering to remain ahead of the pack?*

"Innovation is about seeing the limitations that exist and trying to create a reality that is no longer bound by those restrictions. We've evolved from being a website builder to creating the most comprehensive web-publishing platform for anyone to build, grow and manage their business online. This new stage of our development offers amazing potential for growth and a host of new directions to continue innovating."

*Simplicity is a key principle of innovation, often ignored – because the engineers who do the innovation are comfortable with complexity and do not empathize with those of us who are not. How did you overcome this difficulty?*

"Wix was founded on the belief that everyone should be able to easily create their own professional website with no coding or design skills needed. Developing a dynamic online presence is increasingly complex and challenging for small-business owners and Wix levels the playing field by making the web work for them. This perspective permeated through everything we did, and because it was such a core component of our vision we never lost sight of it. The exciting thing about Wix is that we've been able to make very complex backend innovation a core component of our offering without ever sacrificing ease of use."

*When I visited WIX headquarters in Tel Aviv Port, it felt cozy, small and playful. How do you manage to maintain this ambience in a rather large company? What can other Israeli start-ups learn from your experience?*

"There were certain principles that were so crucial to our development that we made sure they remained a core part of everything we do, no matter how many people we added. We place major emphasis on transparency, so that everything happening in the company is known to every other employee.

"Empowering our employees is hugely important to us, so we've developed organizational structures to make sure our team is



Wix founders (left to right) Avishai Abrahami, Giora Kaplan and Nadav Abrahami

constantly developing and growing as professionals. We've always made hiring a major priority, and not just hiring the most experienced people, but the most talented and the ones who truly embrace our values. It's so easy to overcomplicate the process of scaling up and, along the way, the things that made a company special in the first place are lost. No matter how large we grow, we'll always keep those core values."

Wix walks its talk. Avner Warner, Wix VP for business development, and Nir Hassan, chief operating officer, initiated an interest group, the Israel Growth Forum, which seeks to encourage start-ups to choose a path of independent global growth.

I attended the first meeting of the group,

## THESE EARLY EXITS AMOUNT TO SELLING THE SEEDS BEFORE THE TOMATOES ARE RIPE

held at a Tel Aviv Port jazz club. A great many complaints were aired, which I am not at liberty to recount because the gathering was closed to the press. I felt that the jazz setting was perfect because, to scale up, start-ups must shift gears from jazz-like improvisation to disciplined management of a seasoned orchestra – a transition many entrepreneurs find boring and burdensome, another reason for so many exits.

In principle, helping start-ups to grow up instead of sell out is government policy. But, in practice, huge multinationals like Strauss, Teva and Intel lobby hard for tax advantages

while start-ups simply have no voice. Economy Minister Naftali Bennett, an entrepreneur who launched and sold a start-up, Cyota, to RSA Security for \$145 million, has made many promises but done little to help start-ups grow. Meanwhile, the Milken Institute, a think tank, showed that in 2002-2012, 11 times more Israeli start-ups were acquired than embarked on IPOs to achieve global growth.

There is a glimmer of hope that things are changing, however. Mobileye, a company whose radar and software help drivers avoid car accidents, raised a record \$890 million in its US IPO in 2014 and is bound for global growth. Waze, the company that built a navigation application for smartphones, turned down an acquisition offer from Facebook because it involved moving its operations abroad, which is usually what happens to acquired start-ups. Google bought Waze in 2013 for \$966 million and agreed to leave the company in place, in Israel, for at least three years.

And there are counterexamples of exits that hugely benefit Israel. HP bought Indigo, the color printer company, in 2001 and left it in place in Israel as an independent business unit. Indigo has thrived and HP now employs 5,500 people in Israel – a majority in the Indigo division – and is the second-largest foreign employer in the country. Another counter example is Iscar, the cutting-tool company acquired in 2006 by Warren Buffett's Berkshire Hathaway and left in place. Its plant in the Tefen Industrial Zone in the Galilee has thrived and grown and Buffett calls his acquisition "a dream deal."

An insightful perspective on the start-up exits is provided by The Economist's

"Schumpeter" columnist, who writes about innovation. "These early exits," the columnist wrote last December, "amount to selling the seeds before the tomatoes are ripe."

He notes that almost 1,000 new start-ups are launched yearly, but few manage to grow up as independent firms. Israel has only one company in the world's 500 largest firms (Teva Pharmaceuticals). Other small nations have more. Denmark, for example, has three, Sweden has nine and Switzerland has 17.

A senior Wix manager told me, "We realize that if Wix sells out, it will be a terrible blow to other young people who launch start-ups and want to grow them." He is right. In the "change the world and win undreamed of riches" narrative, right now the exits rule. But a new story, one that glorifies growing juicy, ripe tomatoes rather than selling seeds, is developing. I wish it well.

Professor Manuel Trajtenberg, now the Zionist Union's candidate for finance minister, has said, "We have to give up the 'fast exit' culture in Israel in order for high-tech to influence the economy positively. This will require a change in personality – a hunger to build for the long run, instead of instant gratification."

"Schumpeter" wrote that "Israel is trying to turn its Davids into Goliaths." I'd settle for a few Davids old enough to shave. ■

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