HELLO, CONSUMER

After years of stellar success in heavy-duty computing, local techies are learning how to court actual end users. The takeoff of apps such as Waze and GetTaxi raises the question— is this focus a good thing?

Tali Heruti-Soffer

Israeli startups are known for excelling at technological innovation but faltering when it comes to marketing their products. This is such a part of the conventional wisdom that few bother to test the assumption. The reasoning is that developers of new products come mostly from the breeding grounds that nurture the "start-up nation"— namely, from the cutting-edge Israeli defense and technology intelligence units such as Unit 8200 or the Binary training program for exceptional students. These environments foster hard-core developers, who focus on innovative infrastructure, security and communications, and are less interested in building popular applications for the end user.

The geographical distance between Israel and target markets can also partially explain the fact that local startups prefer working in the business-to-business (B2B) market, rather than business-to-consumer (B2C), which entails diving into the uncharted waters of consumer markets. Until recently, this assumption was borne out by a host of local startups. Check Point, Mellanox, Adama and many others have achieved breakthroughs in fields including communications, security and billing systems. They are highly successful in their respective fields, but their clients are international mega-corporations, not individual consumers.

Meanwhile, small companies with unique products often exit before their products are actually marketed. Until recently, it seemed like a given that these companies couldn't hawk their own goods to consumers. But in recent years, with the advent of smartphones and applications-based tablet computers, this has started to change.

Here are a few examples. There's now an online marketplace for small audio services, and 1.2 million service providers around the world registered as customers. GetTaxi, which lets users order taxis via their smartphones, is catching a sea change in taxi services in Israel, London and Moscow, and even in New York, too. Soluto and Waze are two more companies that are dispelling the myth that Israeli high-tech serves only as an incubator for bright ideas that never mature. Is Israel's high-tech sector about to enter a new phase?

Traditionally, the strength of local enterprises lies in their technical product, the hardware and software, while less thought was given to the user experience, to marketing and to global expansion," says Dr. Oren Zuckermand, academic director of the Innovation and Entrepreneurship track at the Interdisciplinary Center in Herzlyia.

"Whereas American companies knew how to leverage a brand and deliver it to customers, Israeli innovation tends to remain behind the scenes, as a supportive role for existing brands. Out of the blue, you might hear about a local company acquiring one in the public being sold to Facebook or Microsoft for hundreds of millions of dollars."

"This new wave of local projects could succeed if priorities change to put users and their experience at the center. Success will follow if more thought is devoted to marketing, with the user in mind, followed by unique technological innovation," Zuckermand says.

ROBOT, YOU USER

For the past few years, the trend seems to have been heading in that direction. Growing numbers of Israeli entrepreneurs are becoming consumer-oriented, directly catering to the end user. Instead of developing billing services or bloopers for international companies, the consumer is now king, whether on the road, at home, at work or anywhere else. He or she has the free hand to hold a smartphone.

What are the implications of this trend for the local technology industry? Until a few years ago, everyone was waiting for an Israeli Facebook. Could we now anticipate an Israeli MacBook? If five years from now the answer was definitely no, you could say it's a maybe.

Haim Sodger, a partner in the venture capital fund Sequoia, divides Israeli startups into three categories.

"There are the ones that have already made it and are now looking for the next breakthrough, entrepreneurs just launching their first startup but coming from within the industry and thus possessing experience and a cautious approach; and the novices, usually right out of the army, with or without an academic degree, whose world is not necessarily reality based. This enables them to go out and change reality," he explains.

The common denominator is that none have a marketing strategy in mind when they start out, says Sodger. "They know that their starting point is very different from their competitor, so they don't plot out a strategy for selling to big companies while ignoring end users, or visa versa. They all say we have an idea, let's launch it and see where it will take us."

"The history of this industry is also divided into three eras, each one of which affected entrepreneurs in different ways. The first phase in the 1990s stemmed from the needs of the defense establishment. This is where innovation was born. In the 1990s, Israelis such as (serial entrepreneur) Gila Yaron and (former Intel vice president) Don Fichman returned home from Silicon Valley, launching a process of international networking. The big international corporations arrived, and the third phase started after the dot.com bubble burst early in the previous decade. The industry as we knew it today started at that time, including many startups devoted to "heavy" high-tech, still under the influence of their military breeding ground," Sodger continues.
IZHAR SHAY: 'WE SHOULD BE WARY OF AN EXTREME SWING OF THE PENDULUM... WE HAVE GREAT ADVANTAGES IN THE MORE TRADITIONAL STARTUP PROJECTS...'  

Are we on the brink of a new, fourth phase? Not necessarily, even with the success of the recent consumer-oriented projects. Our startup ventures are still not focusing on end users, given how far away they live. This industry started more than 20 years ago, concentrating on communications and storage services. It has now matured with greater internet access networking, but things are still moving in the same direction.

"We are only now taking our first steps in reaching out to end users. We need more time and wisdom to get this right, and we're just beginning to gain more experience. We're actually at a disadvantage compared to many American companies. Even though there are similar numbers of new startups here and in Silicon Valley, they have the advantage of a broader knowledge base, proximity to customers, and experts who are more familiar with the field."

How would you describe local entrepreneurs who do consider the end user?

"These are very talented people, well-acquainted with the Internet world. Many have lived or studied abroad, so they are not daunted by the prospect of dealing with the outside world, as was the case with an earlier generation. However, they are also at a disadvantage, since it's relatively easy to set up such companies but much harder to convert them into really big ventures." Shay says. Izhar Shay, partner and head of Israeli operations at the venture capital fund Canaan Partners, agrees in part with Shay.

"It's natural that people play to their strengths. This is sound financial practice. If I had a magic wand, I would create an Israeli high-tech industry based 70% on heavy-duty R&D and 25% on internet and applications entrepreneurs."

"The last five years have witnessed a significant and welcome increase in the number of people moving into applications and user experience, and investors are more willing to invest in that. But we should be wary of an extreme swing of the pendulum - developers starting to focus exclusively on individual consumers. We have great advantages in the more traditional startup projects, while we have many more competitors when it comes to application development," Shay says.

THE BIG BANG

What caused this massive shift from 22B to 22C in the last five years?

"French success stories are contagious. Everyone wants to emulate them. The impact of initiatives such as GetFem on the business of exchangers is huge and abroad has made many entrepreneurs think of changing direction. It's much cheaper to start application development ventures. You need only tens of thousands of dollars in initial funding before you can test if you're heading toward success or failure. Within two years you've reached 1 million users instead of 100 million, you know you have a problem."

"Many of us have a talent people who have a talent to focus on new directions and utilize the fact that the world is different and that Israel is part of a global village. The economy and world markets matter less now, and more entrepreneurs are starting to think about consumer products and user experience."

"For consumer and venture capital funds, this is a totally different challenge. Many funds are studying this field in depth in order to better understand the people seeking their funding. Others have decided to stay away entirely."

"One advantage of the new field is that there are more 'angels' willing to invest, since much less money is needed to start out. But in a market environment, even these small ventures require massive funding for further development. Will we see more companies like Millenium or the Maccabees?"

"Since it's easier to launch application developers (just companies like Millenium), we'll be encountering more entrepreneurs with more ideas. However, the basic split between different character types will remain: Millenium co-founder Eyal Shalam or Check Point's co-founder Gil Shwed would never have developed GetFem, just like GetFem developers would never have set up Check Point or Millenium. We'll continue to see both types."

"Companie like Facebook and Google are like the Big Bang. They're in a different league even for Silicon Valley. Not every Israeli can produce companies of this magnitude. But even the smallest Israeli can produce companies."

While not everyone is driving a new car, the average American is driving a car less.