

Could Anyone Have Thought Up Hotmail? Excerpts from *The Nudist on the Late Shift* by Po Bronson

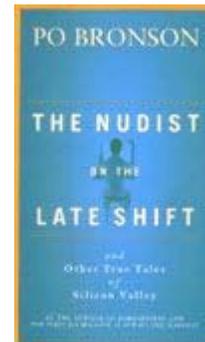
From the moment I met him, Sabeer Bhatia has given credit to the power of the idea. It was so powerful that when his friend and coworker Jack Smith called on his car phone to brainstorm about it, Sabeer said, "Oh, my! Hang up that cellular and call me back on a secure line when you get to your house! We don't want anyone to overhear!"

It was so powerful that when Jack did call Sabeer back, their minds melded as they talked, leaping from one ramification to the next simultaneously. Sabeer stayed up all night writing the business plan. He looked so haggard that his boss stopped him and said, "You've got to cut out the partying." Sabeer -- afraid the idea might pop out of his mouth -- just nodded. He was afraid even to make a single photocopy of the plan.

The idea came about this way: Sabeer and Jack had wanted to start a company. They wanted to e-mail each other notes, but were afraid that their bosses might see them. They had personal America Online accounts, but these couldn't be accessed through the office network. Jack Smith had been frustrated all day by this problem. Then it occurred to him: Free e-mail accounts that can be accessed anonymously, over the Web. It was an idea that had been lurking under the nose of every budding entrepreneur in the world.

It was the kind of idea that spurs thousands of young people to give up their lives elsewhere and crash the Valley party. You don't have to know the right people. You don't need experience. Most importantly, you don't have to be an Uber-geek. What Sabeer did -- as Jerry Yang and David Filo of Yahoo! Or Jeff Bezos at Amazon had done -- was to return the cutting edge of ideas to the reasonably intelligent, super-achieving everyman. What was Yahoo! to start, but a yellow pages? What was Amazon, but a bookstore?

Nowadays, meet Sabeer at a party, and he will tell you only that he works in high tech. Sabeer is just twenty-nine years old, and has a very regal air; he is a deep listener, a gentle giant. Push him for more detail, and he'll say he works at Hotmail. Ask if he's an engineer, and he'll say no, he's the president. He's not being reclusive or coy, it just hasn't sunk in that he might be special. In just under two and a half years, Sabeer has built Hotmail's user base faster than any media company's in history -- faster than CNN's, faster than America Online's, faster even than the audience grew for *Seinfeld*.



One night, I met Sabeer for a glass of sweet Indian rum at his apartment. It's the same apartment he had the night he wrote the Hotmail business plan. Beside the couch is a stack of industry trade magazines. That's his pipeline of strategic info; just magazines, available on any newsstand. With any Silicon Valley success, there's an analytical community constantly debating the verdict of history, a chattering class fuming with jealousy. It's the Valley's restatement of the nature-versus-nurture question. Is he lucky or what?

On September 23, 1988, Sabeer Bhatia arrived at Los Angeles International Airport from Bangalore, India. Cal Tech had offered him a very rare transfer scholarship. He was nineteen. In his pocket he had \$250. He didn't know a single person in all of America. He had won the transfer scholarship to Cal Tech by being the only applicant in the entire world (usually about 150 give it a try) in 1988 to get a passing score on the notorious Cal Tech Transfer Exam.

Sabeer intended to get his degrees and then to go home to work, probably as an engineer for some very large Indian company. But at Stanford, he heard entrepreneurs like Scott McNealy, Steve Wozniak, and Marc Andreessen. Their fundamental message was always the same: You can do it too. Sabeer knew that famous people always say such things. But Sabeer's impression of these successful entrepreneurs was that they really were fairly ordinary smart guys.

When he graduated, Sabeer did not want to go home. So, along with Jack Smith, he took a job at Apple Computer. His parents were pleased -- at such a big and important company, Sabeer could work for twenty or thirty years. But Sabeer had started attending cocktail parties of TIE, The IndUS Entrepreneurs, where he met many other older men who had come from India and succeeded here. Every morning, Sabeer would tell Jack Smith yet another story of some guy who'd sold his company for millions. "Jack! What are we doing here, wasting our lives?" But Jack was a shy person with a wife and two kids. Finally, Sabeer wore him down: "Jack, given the enormous opportunities here, if we can't make it here, then we are complete failures."

At an IndUS Entrepreneurs dinner, Sabeer sat down one night beside a man named Farouk Arjani. Arjani had been a pioneer in word-processing in the 1970s, and had since become a special limited partner of Sequoia Ventures. They hit it off, and Arjani became Sabeer's mentor.

In mid-1995, Sabeer began shopping around a two-page executive summary business plan for a Net-based personal database called JavaSoft. When Jack and Sabeer came up with the Hotmail idea in December, JavaSoft became the front for Hotmail. He kept showing JavaSoft and showed Hotmail only to those VCs he had gained respect for: "It was fine that they were rejecting JavaSoft. But in so doing, I got to see how their mind worked. If they rejected JavaSoft for the right reasons then I showed them Hotmail."

At Sabeer's first presentation to Draper Fisher Jurvetson, things weren't going well -- Steve Jurvetson was having the same problems with the database idea every other VC

was. But he was rejecting it for the right reasons. So, Sabeer played the Hotmail card. He characterized it as a marketing tool. ("Everyone who used Hotmail would wonder how we built it and come buy our JavaSoft tools.") Jurvetson wasn't fooled.

One might have presumed that since Sabeer had been rejected by twenty previous VCs and was virtually a nobody, he would be grateful to accept Draper, Fisher, Jurvetson's offer. "He's the most interesting negotiator I've ever met," Jurvetson says. Tim Draper made the perfectly reasonable offer of retaining 30% ownership on a \$1 million valuation. Sabeer held out for double that valuation -- their cut, 15%. Negotiations got nowhere, so Sabeer walked out. His only other available option was a \$100,000 "friends and family" round. "If we'd gone that route, Hotmail wouldn't exist today," says Jack. Draper and Jurvetson called back the next day to accept their 15%.

It took off-the-charts confidence to do what Sabeer did. But Sabeer refuses to credit anything but the Valley culture: "Only in Silicon Valley could two twenty-seven-year-old guys get \$300,000 from men they had just met. All we had was an idea." Sure, but don't famous people always say such things?