

Couchsurfing International

A Story of Startup, Growth, and Transformation

CASE

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In ancient civilizations, it was a common practice to open one's home to travelers who needed a place to sleep. This prompted the sharing of news, stories, and information. Couchsurfing International, a travel-oriented social networking site based in San Francisco, is dedicated to reviving the ancient practice and the social exchange that goes along with it.

Chapter One: The Founders

THE CONCEPTIONIST After graduating from college in 1997 with a degree in computer science, Casey Fenton decided to see some of the world before settling down. When he came across a relatively inexpensive flight from Boston to Reykjavik, Iceland, he decided to buy it but had no idea where he would stay or what he should see while there. He knew that he did not want to be a garden-variety tourist, staying in a hotel and traveling to the typical sights. Rather, he wanted to immerse himself in the Icelandic way of life—this, he believed, was what traveling should be all about.

To zero in on definite travel plans, Fenton called and e-mailed almost 2,000 students from the University of Iceland, asking if they had a couch or spare room that he could stay in for a night or two. He received more than 50 offers for possible accommodations not only in Reykjavik, where the university is situated, but also in other towns located nearby. Using these leads, he made connections, set up specific travel plans, and left for his Icelandic adventure.

The trip ended up being a truly unforgettable experience. The locals showed him things he could never have found on his own, and he built great friendships along the way. Fenton decided that he wanted to help others see the world as he was able to, through the eyes of native hosts. On the flight home, he came up with the idea that would become the foundation of “The Couchsurfing Project.” Fenton spent the next couple of years programming and setting up the website for Couchsurfing.org. He also took a position with a startup called Fuxito Worldwide, but he continued working on the code that would lead to the eventual launch of his slowly blossoming website project.

THE ENTREPRENEUR Daniel Hoffer had three well-defined passions that developed at a young age: a love for traveling, helping others, and computer programming. An avid traveler since he was a boy, he gained a sense of

purpose and perspective from learning about different cultures. With this confidence and direction, he figured out how to use his computer science skills to fulfill his desire to help others. The first online community that Hoffer launched grew into what would become a nonprofit educational program in Massachusetts and an online bulletin board that allowed physically disabled patients to connect with high school students.

Prior to getting his MBA from Columbia Business School and working for numerous computer technology companies, Hoffer studied philosophy at Harvard University. Apparently, his studies weren't enough to keep him busy, because he remained actively engaged in the computer science world during that time and helped launch multiple startups. One of these companies, founded in 1999 as a venture-backed operation, was an international soccer website called Fuxito Worldwide. Although this endeavor was only one of hundreds of projects with which Hoffer would become involved, Fuxito was the venture that would lead Hoffer to his true calling.

THE VISIONARY Sebastian Le Tuan was born to help cultivate a world of cultural acceptance through travel. A native of France, Le Tuan eventually followed his heart and his love for technology to Silicon Valley in California. But while he was still a teenager, he spent time with a host family in Catalan, Spain, which helped him to understand that experiencing cultures on a personal level is paramount to releasing judgment and embracing differences. Though he had an undergraduate degree in cognitive science from the University of California at Berkeley, Le Tuan managed to harness his passion for software development, as well, through various research initiatives. He worked for several companies as a software designer, with a focus on user experience. Eventually, he landed a position at a Web-based company called Fuxito Worldwide, where he would come to find his broad span of interests and experience perfectly matched for an innovative endeavor that was just waiting to come together.

Chapter Two: Birth of a Business

Fenton, Hoffer, and Le Tuan brought their own unique backgrounds, interests, and talents when they joined Fuxito Worldwide and ended up making important contributions to the venture. Though they worked on different

aspects of the company, the three formed a close friendship based on a shared love for innovation, exploration, and serving those in need. They realized that their diverse specialties, together with a unified purpose and vision, could help them develop a website that would revolutionize the way people travel. Thus began The Couchsurfing Project.

THE PATH TO 501(C)(3) STATUS After spending a number of years forming their ideas into a concrete plan, Fenton, Hoffer, and Le Tuan all agreed steadfastly on many aspects of their startup concept, the most important of which was that it would be launched as a nonprofit organization. In March 2003, the three co-founders filed in New Hampshire to incorporate Couchsurfing as a 501(c)(3), but it was not added to the official list of registered charities in the state until November 14, 2007. (See Chapter 8 for more information about 501(c)(3) status.) Why the delay? By taking their time to register the organization as a nonprofit with the state attorney general (which is required by law in the state of New Hampshire), Couchsurfing sidestepped certain recordkeeping and reporting responsibilities. This move led the Department of Justice in New Hampshire to investigate the organization at the end of 2007. With the pressure to comply growing, the company eventually sent the required documents for 2003 to 2006 to the attorney general, and the organization was officially added to the registered charities list.

WEBSITE LAUNCH After filing for 501(c)(3) status in 2003, the three co-founders finally launched a beta version of the website. Because he had been so involved with the development of the basic idea and the coding that was needed, Fenton naturally accepted the role of executive director. Hoffer had experience managing small startup companies, so he gravitated toward strategic development-related responsibilities. LeTuan had a solid grasp of the connection between human experience and both technology and cultural acceptance, so he headed the development of the website's overall purpose and mission. This provided the budding venture with a vision that could support and sustain the dedication and commitment of its members. A year after its beta testing was initiated, the website went public, and the founders were confident that users would come to discover and appreciate the power of relationship-based, reduced-cost travel.

Chapter Three: Riding the Wave of a “.org”

The founders fully believed that their venture would touch the lives of millions of people, but in the year following the website's launch, only 6,000 members joined the community. The founders continued to follow the same strategy for the next year, which saw membership jump to nearly

50,000. And with the continued growth came other new opportunities—that is, until 2006 rolled around.

In June 2006, the venture hit a serious snag: As a result of numerous technical errors within Couchsurfing's databases, the profiles of all of its members were lost. Because so much information had vanished and the future of the venture seemed to be so in doubt, Fenton sent out an e-mail to the masses, reporting, “It is with a heavy heart that I face the truth of this situation. Couchsurfing as we knew it doesn't exist anymore.”

Immediately upon sending out this message, Fenton started receiving a great deal of criticism. But at the same time, many members were very supportive, which inspired the Couchsurfing team to design a new website (called CS2.0) within a couple of weeks after the technical failures. The team also created a new slogan for the venture, “Participate in Creating a Better World, One Couch at a Time,” which fit the new culture of the rehabilitated enterprise. With the continued support of past and current members, in addition to the international media attention that the new website received, Couchsurfing's membership exploded from around 50,000 to over 3.5 million individuals by the beginning of 2012. During this period, nearly 5.5 million travel-related connections were formed using this one-of-a-kind community website.

Chapter Four: What to Do When Growing Too Fast

Up to this point, the only revenues that Couchsurfing had received were from donations and its identification verification service (highly recommended, but not required), which could be used to confirm that a member was who he or she claimed to be. Fenton and Hoffer were strongly committed to providing an online source of help to travelers looking for free places to stay and to offering that service without the advertisements and expenses that other travel websites featured. But with the explosion of growth Couchsurfing had experienced, the management team needed to decide if remaining a nonprofit was best for the future of the company. To complicate matters further, Couchsurfing applied to receive 501(c)(3) status in November of 2007, only to see its application be formally rejected by the IRS in early 2011. From this setback, Hoffer came to realize that the nonprofit structure can blunt organizational innovation and flexibility as a result of increased regulatory oversight and various auditing requirements stipulated by law.

In their search for guidance, they sought the advice of four people who were members of the venture's board of directors: Tony Espinoza, Matt Cohler, Jonathan Teo, and Todor Tashev. These seasoned executives brought a wealth of experience to discussions about the company and its future. Espinoza had worked at Apple and had served as

vice president and general manager for MTV Networks, vice president and co-founder of When.com, vice president of AOL, and CEO of SuperSecret.com. Cohler was one of the founding members of LinkedIn, where he served as vice president and general manager. He was also one of the first five employees hired at Facebook and is currently a general partner at Benchmark, a venture capital firm. Teo was a member of the strategy team at Google and a principal at Benchmark, where he helped initiate the original investments in companies like Twitter and Instagram. Tashev had worked as a venture capital analyst for JP Morgan and later became a partner at investment firm Omidyar Network, where he directed consumer Internet and mobile initiatives.

These board members suggested using a new organizational form specifically designed to use the power of business to solve a social or environmental problem. As a B Corporation (or benefit corporation), performance and accountability standards are demanding, sustainability must be a primary thrust, and transparency is forced through B Impact Reports that have to be filed. But the team quickly realized that converting to this form would allow them to accept investments, and be nimble and flexible while remaining true to their original and continuing social mission. Responding to this advice, the team decided to change its status officially to a B corporation in late 2011.

This new organizational form brought new opportunities, but also greater challenges. On the opportunity side, it led to \$15 million in investments to fuel the expansion of the company so that it could keep up with escalating market interest. This funding was led by investment heavyweights like Benchmark, General Catalyst Partners, Menlo Ventures, and Omidyar Network. It also allowed the firm to begin to earn profits from its nearly 3.5 million users, but the founders maintained that Couchsurfing would continue to offer its services free of charge to its users. They added, however, that the change would also allow them to explore “alternative revenue streams.”

While the change in status at Couchsurfing opened the door to greater opportunity, it also presented its share of risk. Change can erode confidence and will almost always generate at least some resistance. It certainly

created significant backlash for Couchsurfing. About 3,000 members of the company’s online community actually formed a group under the title “We are against CS becoming a for-profit corporation.” This group voiced their reactions, which were varied and included statements such as “The structure of CS belongs to the community,” “Members are no longer part of a true community, they are customers/consumers of a service sold by Couchsurfing International Inc.,” and “The worst part is that the assets of a non-profit should not be allowed to change into a for-profit.” These reactions indicate that the struggles at Couchsurfing International—following its conversion from a nonprofit organization to a for-profit entity that continues to provide benefits to society—are probably far from over.

Questions

1. How would you describe the founding team of Fenton, Hoffer, and Le Tuan? Is it a balanced team? What does each member bring to the business? Can you see gaps in their skill sets and capabilities that should be adjusted for in some way?
2. What is the form of organization that Fenton, Hoffer, and Le Tuan first chose for Couchsurfing International? Assess the advantages and disadvantages of the major organizational forms mentioned in Chapter 8. Which of these would have been best for the company when it was founded? Why?
3. Identify and describe the organizational form to which the team most recently transitioned the firm. Was it a good decision to make this change? In your opinion, how well was the transition handled? In what ways might it have been managed better?
4. Assess the fit of the board of directors with Couchsurfing based on the profiles of those members mentioned in the case (the company has additional directors). What are the strengths and weaknesses of these board members, including potential gaps in their knowledge? Do you see any ways in which their advice to the entrepreneurial team may not have been in the best interests of the company?

Sources: Case contributed by Garad Soderman; www.opencouchsurfing.org/tag/legal, accessed April 5, 2013; Nicole Perloth, “Non-Profit Couchsurfing Raises Millions in Funding,” *Forbes*, August 24, 2011, www.forbes.com/sites/nicoleperloth/2011/08/24/non-profit-couchsurfing-raises-millions-in-funding, accessed April 4, 2013; Bobbie Johnson, “After Going For-Profit, Couchsurfing Faces Revolt,” <http://gigaom.com/2011/09/01/after-going-for-profit-couchsurfing-faces-user-revolt>, accessed April 3, 2013; and Michael del Castillo, “Global Traveler Raises \$15 Million to Put Strangers in Your Living Room,” *Upstart Business Journal*, August 22, 2012, <http://upstart.bizjournals.com/money/loot/2012/08/22/couchsurfing-raises-15m-for-mobile-apps.html?page=all>, accessed April 4, 2013.