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Jawbone: From Innovative to Insolvent

by Jeff Voss

Conventional wisdom says a startup lives or dies by its access to funding. By taking a look at Jawbone--which raised nearly $1 billion in funding before shuttering in 2011--this post explores the idea that perhaps what is even more useful to a startup than capital is collaboration.

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How can a startup best explain their value to a potential investor or collaborator, when what they're offering (or the data needed to support it) doesn't even exist yet? In a forthcoming article in the California Management Review, authors Marc Wouters, James Anderson, and Markus Kirchberger explain how startups can more effectively communicate their value when approaching large firms for backing, who have "outside-in" startup programs. In exchange for the firm's resources (money, established supply chains, customers, and more), the startup provides innovative offerings and create superior value for the firm and its customers.

According to the authors, many startups fail to acquire funding and partnerships because they do not do a thorough enough job of communicating their value to the firm. While the authors' research is focused on startups attempting to achieve their initial funding/partnership, their insights offers valuable advice for startups of all forms. Additionally, the authors adumbrate the value in collaborating with a big firm, rather than merely securing financial investments from outside investors. Taking this into account, what could a startup that was one of the most well-funded in Silicon Valley's history have learned from Wouters et al.'s research?

Over its nearly two-decade tenure, Jawbone (originally named AliphCom) secured nearly $1 billion in funding, and was at one point valued at north of $3.2 billion. While many startups fail from lack of funding, many have attributed Jawbone's mercurial rise and fall to overfunding. Perhaps Wouters et al.'s research could provide some insight into how Jawbone could have better crafted their value propositions to their backers, and asked for some much needed extra-fiduciary support.

Focus

Wouters et al. make it a point to emphasize how critical it is for a startup to pick a focus of applications, and to favor a narrow but deep understanding of its goals rather than pursuing a range of spread out, shallow ones. Jawbone originally began as a company focused on developing military-grade audio technology. This led to its flagship eponymous product, the Jawbone wireless headset. It then began churning out popular, stylish wireless speakers. Finally, it bet the house on fitness tracking and became one of the initial leaders in the premium "wearables" market with its UP brand of fitness bands.

This pinballing of products and focus led to not only confusion from their customers, but from collaborators, too. Aaron Coleman, the founder and CEO of Fitabase, recalls how Jawbone spread its engineering focus too thin, using costly engineering resources on pet projects and pilot programs that went nowhere and ignoring "fundamental parts of their API (Application Program Interface)[that] were broken in very basic ways that had no ETA for fix."

Transparency in Shortcomings

One essential element the authors note a startup should be upfront about is where they need support. Though it sounds obvious, Wouters et al. outline the need for startups loaded with high aspirations to, "consider how it fits into the complex supply chain." As they put it, startups not only need to, "[understand] what it is you don't understand," but they need to communicate any known unknowns or upcoming difficulties to investors. Jawbone's line of wearable fitness trackers—the UP fitness band—were littered with problems from the go. False starts and production delays laid a wet blanket over the initial hype surrounding Jawbone's promise of a 24/7 wearable. The first generation would "brick" and stop working after only days of use. Less than a year after its initial launch, the problems with UP were so common the company had to issue thousands of replacements to its irate customers. In 2013 Jawbone seemed to make another massive leap forward, promising the UP3 would be completely waterproof. But production delays hampered Jawbone again, as the company's manufacturer apparently couldn't get the device to be 100% waterproof and leadership refused to compromise for the less impressive "splash-proof" protection.

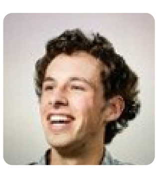
Additionally, there were reports that the gap between their office and supply chain was so large that by the time the office caught bugs it wanted to fix, the manufacturer had already produced a new model. Though Jawbone was able to secure $165 million in last-ditch funding a year before it shut its doors, perhaps it would have served the company to better focus its efforts on finding an established partner to collaborate on its shortcomings with rather than selling promises of a breakthrough that time and time again turned out to be a mirage on a permanent horizon.

Hardware is a notoriously difficult endeavor for a startup to try and hurdle. Why did Jawbone not lay out these potential issues to backers? Maybe they assumed by laying out their unknowns and weaknesses, they wouldn't be able to secure funding. But even with the significant funding they procured, Jawbone still wasn't able to overcome its hardware issues, showing how funding is not a panacea for a startup that cannot or will not recognize its shortcomings.

Moving forward, with hindsight

Looking back, perhaps Jawbone should have shifted its strategy from securing (lots and lots of) venture capital and sovereign wealth fund investments and instead tried to communicate its value to larger firms interested in collaboration. It seemed to have attempted this back in 2010 in a partnership with Cisco for devices and software that enabled office workers to move around an office and have a call move with them, even switching between office phones to mobiles. Whether or not more collaborations were planned is unknown.

While hindsight is 20/20, it seems clear Jawbone could have benefitted from a more permanent partner in the form of an established player who had the supply chain infrastructure and experience rolling out new tech hardware. Or perhaps they should have maintained their original focus on military-grade acoustics technology, which is what led them to become a breakthrough player in the Bluetooth wearables market. Either way, it seems that CEO, Hosain Rahman, has finally narrowed his focus for now, starting Jawbone Health Hub with the goal of producing medical-grade wearable technology. Perhaps he can find a way to communicate the value in starting from the ashes.



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