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Startup War Story: iBuyNew almost failed as founder overestimated its potential



SYDNEY, AUSTRALIA - MAY 12: iBuyNew chief executive Mark Mendel poses for a portrait on May 12, 2015 in Sydney, Australia. (Photo by Dominic Lorrimer/Fairfax Media) **Dominic Lorrimer**

by **Rose Powell**

Every new business owner hopes customers will love their service enough to pay for it, but many startups die by overestimating their clients' commitment. Mark Mendel's property startup was nearly one of them.

Enthusiastic and naïve at 25 while living on money raised from his family and his earnings from working in real estate sales, Mendel realised there was an opportunity to disrupt the cash-sodden but rigid property market.

"I thought it was crazy the developers were paying large commissions to agencies rather than letting the customers go direct," Mendel says. "I was going to change the industry, save everyone a lot of money and change the world."

So Mendel launched March Group, an online marketplace for buying off-the-plan properties in 2007. He signed up several major ASX-listed developers by offering them a free trial and so was able to list hundreds of apartments available for purchase.

Free trials are common in marketplace businesses, such as SEEK and Carsales, where both the business provider cohort and the consumer base need to develop in tandem. Mendel was aware of the risks of offering a service for free at the beginning, but says there was no other way to solve the "chicken and egg" challenge for developing a

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The developers were keen and he soon had more properties available all along Australia's east coast.

TERRIBLE TIMING

But unfortunately, when it came time to convert the developers from free users to paying customers, the global financial crisis hit and many developers began hemorrhaging profits and tightening their belts.

"I was hoping 80 per cent would say yes (to paying fees). But they could not care less. More than 90 per cent said no, and those who didn't wanted to pay me as an agent, the very model I was trying to disrupt," Mendel recalls.

When one client turned down paying Mendel \$2000 to keep his listings active on the site but explained they'd happily pay him \$40,000 for a handful of sales in a few weeks, he realised he needed to develop his business model in a new direction. He just wasn't sure which one.

Mendel, still working on his own, had property developer connections in Sydney, Melbourne and Brisbane. He decided to trial a different business model in each state to see which worked.

"I was running around like a headless chicken. I couldn't afford to hire more people, I needed to pour any money I got into the technology," he says. "It was really hard and I was constantly stressed I'd missed an opportunity while trying to get everything done."

After several months of trialling a range of business models that passed as a painful blur of anxiety, airports and the occasional sale, Mendel had to face facts. His business would be more successful if he hired internal consultants and got paid for leads generated and sales completed, rather than the more technology-driven marketplace model he originally planned.

KNOWING WHEN TO PIVOT

"It's hard when it's not working, but the toughest part is knowing when to pivot. You can get so focused that sometimes you lose sight that you're working on entirely the wrong thing for the business," Mendel says.

After opting for a new business model, and with enough cash flowing into the business for Mendel to finally sleep well at night, he decided he needed to update the generic brand name to something clearer and more memorable. He settled on iBuyNew in 2013 and began to build out his team.

The business grew steadily and sold more than \$170 million worth of properties, became profitable, and generated just over \$600,000 in profit this year.

Its success attracted the attention of Aura Capital through its ASX-listed Disruptive Investment Group, which acquired half of the business in 2015.

DVI focuses on scalable businesses that are bringing in more than \$500,000 in revenue, and prefers to purchase half of a company and use DVI scrip as part of the cash to ensure the company and its investors are closely aligned by being equally

invested.

With millions in capital available, Mendel, who stayed on as chief executive, plans to grow his team of 10 to 30 by the end of 2016 as they begin to expand their offering and user base.

"Now it's all about scaling the business. We've proven the model and have repeat customers, so it's about building the base so it continues to flourish," he says

This is part of an ongoing series of Startup War Stories. If your business has survived a crisis moment or near-death experience you would like to share, you can get in touch at [rose.powell \[at\] fairfaxmedia.com.au](mailto:rose.powell@fairfaxmedia.com.au)

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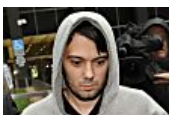
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