

SETH MERRIN

WITH CARLYE ADLER

THE POWER OF  
**POSITIVE  
DESTRUCTION**

HOW TO TURN A BUSINESS IDEA  
INTO A <**REVOLUTION**>

WILEY

# **The Power of Positive Destruction**

**HOW TO TURN A BUSINESS IDEA INTO A REVOLUTION**

**Seth Merrin  
with Carlye Adler**

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*I dedicate this book to Anne Heyman, my wife and my soulmate. The girl I fell in love with at 18 and whom I remain madly in love with and miss every minute of every day. To the miracle Anne created and all our remarkable kids from the Agahozo-Shalom Youth Village who make me proud every day and who are shining examples of all that is possible if you give kids a home, a family, love and an opportunity to learn.*

*To Anne's family, now my family, for sharing Anne with me and with whom I share all the wonderful things that are Anne. To my most incredible family, my mom and dad, my brothers Sam and Jeremy, my sister Esther, my nieces and nephews Maya, Ariel, Ben, Jacob, Isabel, Charlotte, Noah, and Nathan, my brother-in-law Moishik, and sisters-in-law Linda and Holly, and to my unbelievable kids Jason, Jenna, and Jonathan, all of whom helped me get through my darkest hours, who held me together and made me stronger, and for whom I aspire to be the best I can be.*

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## About the Authors

**S**eth Merrin is an entrepreneur, global business leader, and philanthropist who has reinvented how Wall Street can work for good and use technology to make the markets safer and more efficient for investors.

As founder and CEO of Liquidnet, he has built a different kind of financial services company that has created a global market for institutional asset managers to more efficiently trade stocks and bonds. Liquidnet, named the Number One Broker in the World by Abel/Noser, connects more than 800 of the world's leading asset managers to large-scale equity trading opportunities in 44 markets across five continents. Through Liquidnet for Good and its signature project with the Agahozo-Shalom Youth Village (ASYV) in Rwanda, the company is defining a new vision for how progressive companies can save and improve lives around the world.

Merrin has been named "Innovator of the Decade" by *Advanced Trading* magazine two decades in a row, one of the "100 Most Influential People in Finance" by *Treasury & Risk* magazine, and one of the "Tech 50 for five years in a row" by *Institutional Investor*. His innovations have been profiled in more than 50 articles, including *Forbes*, *Barron's*, and *Crain's New York Business*. Before forming Liquidnet, Merrin cofounded VIE Systems Inc. and Merrin Financial, where he introduced the industry's first order management system, technologies that are now standard on virtually every trading desk around the world. Prior to 1985, Merrin was a Risk Arbitrage Trader for CIBC Oppenheimer. He graduated from Tufts University in 1982 with a degree in Political Science.



Carlye Adler is a best-selling author, book collaborator, and award-winning journalist. Her latest book collaborations include two *New*

*York Times* best sellers: *The Promise of a Pencil* by Adam Braun, and *The Hard Thing About Hard Things* by Ben Horowitz. She is the coauthor of the *New York Times* best seller *Rebooting Work* with Maynard Webb, and the national best sellers *Behind the Cloud* and *The Business of Changing the World* with Salesforce CEO Marc Benioff. She co-wrote *Startupland* with Mikkel Svane and *The Dragonfly Effect* with Jennifer Aaker and Andy Smith. Her books have been translated into Chinese, German, Greek, Hebrew, Korean, Indonesian, Japanese, Romanian, Russian, Turkish, and Vietnamese.

As a journalist, her writing has been published in *BusinessWeek*, *FastCompany*, *Fortune*, *Forbes*, *Newsweek*, *TIME*, and *Wired*, and has been anthologized in *The Best Business Stories of the Year*.

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## Introduction: Problems and Opportunities Are Two Sides of a Coin

I'm often told, "You don't have to break *everything*, Seth."

I think you do. All businesses and industries could probably benefit from being broken down and put back together better. In some cases, it's continuous improvement; in others, it is wholesale disruption or positive destruction.

My work life began in the early 1980s when I worked as an intern on Wall Street. Wall Street seemed to me like the center of the universe. The whole world revolved around it. It was fast paced and exciting. It was either where all the smartest people were or where all the smartest people wanted to be. But only a few weeks into the internship, it became clear to me that it was a bit like the Land of Oz. The outside was a picture of well-structured sophistication and complexity. On the inside it was more like the man behind the curtain. I wasn't sure if I was the only one who knew the reality or if I was the only one who wanted to change it.

Either way, seeing past the curtain was the start of my entrepreneurial career, which began at age 24 with my first business, Merrin Financial, a software company that created the first order management system, which automated much of the clerical trading process and ushered in electronic trading. The order management system has since been adopted and is used at every asset management firm around the world. The second company I started was a middleware software company based in New Jersey; the third was a health care technology firm in Silicon Valley; and the fourth is Liquidnet, a global, institutional, electronic brokerage firm, and by far my largest and best company. It's not that I'm a serial entrepreneur as much as I've learned enough from my previous experiences to finally get it right with Liquidnet.

In the pages that follow, I'll tell you my personal story and through it offer real, actionable advice that will resonate with anyone who aspires to be a catalyst of change. You will learn to see the inefficiencies and everyday problems that others dismiss as the cost of doing business, and how to create "unfair competitive advantages" to stack the deck—and win. You'll see how problems in current business models are really opportunities of which to take advantage and learn what you need to know and do to seize those opportunities—no matter where you work. I'll break down my process step-by-step to show you how to successfully start a company and transform an industry.

My voracious appetite for business books has resulted in a lot of knowledge about how others built their businesses and achieved their successes. But most of what I have learned has come from my many mistakes and successes in the four businesses I've started over the years. I believe if you're not making mistakes, you're not trying hard enough. I'll show you what I learned from my missteps: how to build a different kind of company—one that has no titles, no assholes, and not only makes money but gives some of that money back to make the world a better place.

I'll show you how I created several disruptive businesses and reveal how you can, too. With *The Power of Positive Destruction*, you will:

- Discover how to identify problems and turn them into opportunities.
- Understand how to stack the deck in your favor to achieve the best possible chances of success.
- Learn how to build and run a company and design a culture for constant change.
- Acquire new and critical skills to create strategy, sell your disruptive product or service, and negotiate effectively.

Positive destruction can disrupt or transform any company and any industry. It's happening faster and more broadly now than ever before, creating an unlimited number of opportunities for any entrepreneur. But winning in this new world is not easy. The incumbents fight mightily against it and even those who will benefit from change may first express fear. I know firsthand that having a business plan does not mean things go according to plan. I'll give you the real, unpolished version of the struggles we went through, the fights

with incumbents, with board members, with investors. I'll reveal the techniques employed, from identifying the opportunities to designing and executing the strategy that you'll need to succeed.

Maybe you're an investor who follows the market and are intrigued by the drama of it and want an inside perspective. Maybe you have no interest working in the financial industry but you believe another industry is ripe for disruption and are interested in strategies and processes that work. Maybe you want to start a business and you know it's no longer good enough to build a company to last but want to build a company of constant change.

In any case, I believe there's something for you in this book, and I hope it inspires you to think differently and tap into your inner change agent to transform your company, your industry, and the world.



**1**  
**PART**

**THE IDEA**



## Any Industry Can Be Disrupted—Positively

**O**ne of the most important lessons I've learned in business and in life is that the next great transformational idea can come from the least likely of places—and often when you aren't looking for it. And a technology or a technique, when taken from one industry and applied to another, can be very transformational.

I first learned this from my father, Edward Merrin, a great businessman and extraordinary salesman, albeit an accidental one. By nature my father was more of an artist. That was his passion. When I think about my childhood growing up on the Upper West Side of Manhattan, I remember my father always working on his paintings. He did a bit of everything—still lifes, abstracts, and the naked ladies he went to see pose at the Art Students League of New York. On weekends, he went downtown to Greenwich Village with his paintings in tow and tried to sell them. It didn't go well. Let's just say that Dad owns the biggest collection of Ed Merrin paintings in the world.

Dad's real job was in the family business. My grandfather started a jewelry store, Merrin Jewelers, which was in midtown Manhattan, right across the street from Tiffany & Co. Our family business sold more affordable necklaces, bracelets, and rings than the legendary store with the baby blue boxes. Business wasn't exactly booming. My father worked at Merrin Jewelers from the time he graduated college, but he had little interest in business or in jewelry, and he and his father never got along. It was not exactly a recipe for success.

Luckily, Dad found a way to channel his creativity and find his talents while working in that business. He directed his artistic skills



to designing high-end jewelry. It didn't always entice customers. To this day he maintains, "The better the design, the more poorly it sold." He still talks about his favorite piece, a marquee pin with a loop of negative space. No one bought it, and he eventually sold it to his cousin Iris, who purchased it on the condition that he filled the empty space with diamonds. Dad recognized what was important and agreed to the request. "Money is money," he said. "Even if it destroyed the whole design." The tangential lesson learned: Give the customer what she thinks she wants.

At the same time, Dad was always innovative, always giving the customer what he did not *yet* know he wanted. Such was the case with the 14k gold toothpick "for the man who had everything." It retailed for \$7.50. His first buyer was Joseph Welch, the head counsel for the U.S. Army while it was under investigation by Joseph McCarthy for Communist activities. Sales ballooned from there. Merrin Jewelers sold 10,000 gold toothpicks, and to this day people still carry them around (or sell them on eBay for \$149.99).

Still, Dad didn't think those numbers were good enough. "We should have sold hundreds of thousands of them!" And shortly after, he did figure out a way to move more merchandise than he ever had before. Dad started advertising. He took out a small ad in the *Wall Street Journal* and then double-page ads in *Diners Club* magazine. These were not chic ads; they were utilitarian, showing the objects and their prices. They worked. Orders started to come in. He then created an entire catalog. At the time, jewelry wasn't advertised like this and mail order hadn't been done in this industry. Dad's idea stemmed from seeing the ads for knitted caps from Maine in the margins of *The New Yorker* magazine and the Sears and L.L. Bean catalogs that showed up in the mailroom. But Dad believed it was applicable in his business too, and mail order for jewelry worked—it soon became 70 percent of the business.

While Merrin Jewelers expanded its business with mail order in a way it never could have had it relied on in-store sales alone, Dad was a consummate salesman as soon as he got in front of the customer. "You'd be stupid not to buy this," he'd say, and somehow instead of seeming pushy or cocky, he'd pull it off. He always closed the deal.