Stanford eCorner

Are Technologies Ahead of Their Time?

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Winblad talks about how VCs are generally optimistic about market uptake, so in due diligence it is important to assess whether the customers are real or imaginary. The source of most bad investments is misjudging the market risk from competitors or timing, she says.

Transcript

You know, just like everybody else, we really are more optimistic about market uptake in most cases than we are pessimistic. So we have to instead stand back, and in fact in our due diligence list, we have now put in, you know, "Are the customers real or imaginary?" And we hate when we find out they are imaginary, when we love the product. Most bad investments by venture capitalists are not that we funded the wrong people or the wrong products, it is exactly what you said, we have misjudged the market risk. And market risk could be competitors we did not really know and understand their strategy will or could be timing to market. In fact one of renowned professor here who some of you are taking class from, Tom Byers. He is the guy that you should ask about market timing. Because we funded Tom in a startup after he left Symantec. Tom was one of the founding members of Symantec, very successful. And an all-star team, the inventor of Lotus 1-2-3, Tom, you know. Another senior guy who was early at Microsoft and we funded this company with Kleiner Perkins and basically the assumption was that people would basically want devices that look like a palm.

You know, where you could touch screen them, and it's having unique programming environment, you could synchronize back with your e-mail systems. The only problem was, is the year was 1991. So as Tom and I say, well you know, it would have been a good year this year to start that company. Tremendous IP, fabulous execution, even securing of some early OEMs are going to manufacture the devices with the software which included a layer of system software and the application software and the development tools with it. We were just about 13 years too early. So we want to have it anyway. You know, we thought, hey, the market feels like it's out there. We could not judge the distance to the market place and certainly we really misjudged that one. So the answer is, is that, we really stare hard now whether the customers are real or imagined. And we do take time to get these products done.

I mean, early stage investing, you're not sitting there with a full product. You really, really, might have a prototype if you're lucky that you can actually demonstrate but mostly, you have a prototype that you can look at or think about. So we always have to try to judge the times in market. But more often than not, if we really love the team, and love the technology, we might squint for a long period of time, and like imaginary. So it's a mistake we frequently make as venture capitalists and we frequently don't say go back and wait. And that's why you see a lot of restarts out there where, "Hey, it wasn't quite ready. I'll get going here." And I remember a touchline from Kleiner saying at a conference meeting like this, where we were both talking that, you know, that movie, that Titanic, the people that got in the lifeboats were not the early stage investors. Those were the ones that went down with the ship. So we really like these product ideas and we are willing to take huge risks. We try our best to see if the customers are real or imagined.

If they are imagined, we have to step back and just say no. But we frequently err on the wrong side, to be honest.