Stanford eCorner

3 Key Lessons for an Entrepreneurial Internet Company

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Hoffman describes 3 key lessons he learned at his first company, SocialNet. 1) Financing strategy should reflect one's financial capabilities. 2) Focusing on distribution is important. 3) Understanding that the entrepreneurial skill set is different from what is required to work for an established big company.

Transcript

There were three key lessons at SocialNet. SocialNet basically returned its capital to its investors, but didn't actually do very well. And there were three key problems. The first one was, as I mentioned, financing strategy is central. So in 1997 to 1998--we raised our second round in late 1998--all of our competitors were going in the market and saying, "We're going to build these free websites, they're going to have the whole world on them, and you should give us $40 million to go do that." We were going in the market saying, "Well, we think subscription dating is one of the real places where you can make money on the internet, and you should give us $5 million because we're going to kind of just make a subscription web service to make it happen. And our business model, we think, is really sound." And the business model is sound, if you look at Match.com and eHarmony and a bunch of other things now. But the problem was it was the wrong strategy at the time. The strategy at the time was everyone else was raising $40, $50 million and was going at advertising and buying deals and everything else with that money, and we were sitting here trying to make our little business model work, which in that financing climate was a dumb strategy. Your strategy has to reflect what your finance ability is. And the one error, our error, which is an unusual one, is very frothy capital markets, all your competitors are going to be well-capitalized, and if you undercapitalize relative to your competitors, you're screwed.

The other one, of course, is can you actually raise money for this at all? Because if you can't raise money for it, and you're not attentive to what the financing market looks like for what you're doing, then you may also die because you have inadequate financing. Second thing I learned, and this is very basic on consumer internet, is, it's frequently said of retail that there are three words: 'location, location, location'. In consumer internet, it's 'distribution, distribution, distribution'. And as a matter of fact, one of the ways when I'm talking on panels and stuff about entrepreneurship and consumer internet is, the value of what you've built without distribution, approximate value is zero. If you do not get distribution, value's 0. Technology is not valuable. Team is not valuable. It doesn't matter. If you haven't acquired a whole bunch of users through generally natural, organic means--virality is one--most people use the word not knowing what it means--viral distribution is one; there are other forms of distribution that are natural and organic that work--then your value is zero. What I hadn't done at SocialNet, I hadn't realized, because when you work at Apple and Fujitsu, you work at these places which have big channels of customers already.

I hadn't realized that distribution strategy was central. That's the very first thing you worry about, especially in consumer internet. And I screwed that up. And then the final thing was the importance of... In software development, I break skill sets into three groups: Version 0 to Version 1, Version 1 to Version 1.1, Version 1 to Version 2. Those are three different games. They're played differently. They have skills differently. You measure your success differently. When you're doing entrepreneurship, you're doing the V0 to V1, and the game is very different.

So say, for example, you go work at IBM. You get software experience for three years, but it does not teach you how to do V0 to V1. That's one of the things to focus on learning.