



Stanford eCorner

VC's Seeking Disruptive Markets

Steve Jurvetson, *Draper Fisher Jurvetson*

October 07, 2009

Video URL: <http://ecorner.stanford.edu/videos/2297/VCs-Seeking-Disruptive-Markets>

In addition to the usual factors that attract a venture capitalist to a startup - passionate entrepreneurs, unique ideas, and a desire to change the world - Draper, Fisher, Jurvetson's Steve Jurvetson points out that many VC's are also seeking truly disruptive technologies. Startups exist and win, says Jurvetson, with true innovation, else, "the big guys just get bigger." Numerous elements affect disruption - competition, distribution channels, etc. - but the best "disruptive dynamos" often come from interdisciplinary and non-linear efforts.



Transcript

So, what do VCs look for? Just one quick slide; it's probably obvious but this is the way we like to frame it. Almost every VC will tell you the first point, passionate entrepreneurs; of course, that's what we have to look for. This one is somewhat unique to us. In other words, I don't know if any venture firms emphasize this second bullet point as much as we do. We really try to find unique ideas, not sure moneymakers, not yet another great idea that fits in a framework of investment thesis that we just roll out over and over again. We really try and make every one of our investments one-of-a-kind. And that gives you a lot of ancillary benefits like diverse syndications and things of that sort. And of course, they have to have both the desire and a plausible plan to change the world. Something bold, something brash, not just arbitrary-seeking opportunists looking to make their quick buck. A lot of these other things you hear about from venture capitals are I think derivative from these core points and much of our strategy and tactics is a firm drive from just one simple rule from Cathy Eisenheart's sense of simple rules from which all strategy derives.

But one of the things we really look for is disruptive technology, so let me focus on that. Why is that? So, let me ask a question to you. Why does a startup exist and why do venture firms exist? They are going up against daunting challenges, right? Undercapitalized, no brand, no market presence, no prior customer relationships. A startup company has everything stacked against them, except for one thing. Usually, there's something related to disruption. If it weren't for this, a startup wouldn't win. If you had stasis, stability, and predictability at any given market, you don't tend to see startups. And so, it's sort of an obvious point. But the one we'd like to focus on: That if you don't have something disrupting the marketplace, it's just going to be the big guys getting bigger, right? Here are some examples of ones that we think of, but most of these we can't really invest in any given sort of ongoing strategy like 10 years from now, 20 years from now. I couldn't count on most of these like structural changes in markets, deregularization, privatization.

These are great opportunities when they come in certain economies around the world, but you can't count on the next one 20 years from now. I couldn't predict what it might be. Even financial turmoil itself is a form of disruption. It's kind of funny but some of the companies in our portfolio, they're doing the best around the automotive industry, an industry that's just completely disrupted through the financial turmoil and all kinds of interesting self-induced injuries around pension plans and what-have-you that allows the Teslas in the world or even software companies that sell to auto dealers, are having a booming business, right? And it's usually some form of disruption that allows innovation to come in. Sometimes disruption can come from new challenge of distribution. If you think of when Dell first entered competing with Compaq back when they were like resellers versus direct-

to-consumer kinds of channels that were forming for first-line computers, it was almost as if Compaq's fate was written on the wall. And sure enough, Dell took the business and the franchise away from Compaq in its early days because of their ability to exploit a new channel distribution. And if it weren't for that, just being yet another computer manufacturer didn't make the difference. And all the other competitors of Compaq that were classic in the same business through the same channels didn't really have as good a chance. The Internet is a classic example of new channel distribution, sort of the largest disruption in how you reach customers.

By channel, I just mean what is the method by which a company reaches its customers, through what intermediary, through what sales channel. Internet's the biggest change in that that we've seen. I'm not sure what the next one is, it probably something to do with mobility, but I can't predict what the one after that would be. So, again, it's great when you find them but hard to predict a sustainable business, which entrepreneurs be around 50 years from now, will they be around 100 years from now, not sure which of those I can count on. This one I will count on. Every year, every decade, every century, disruptive technology advances continue and they compound. And they become more and more powerful. So, this is the one that really gets us excited. It may have been in the noise, but it kind of answers the question, "Why are these VC's focused on technology. Why are they doing so few retailer deals or so many other parts of the economy?" Service economy is a bigger part of the economy than the goods or physical products.

And why are we in these weird niches and why does it seem so natural for us to do that and so unnatural to invest in other areas? It's because this is where we find these disruptive dynamos to glom on to. A lot of the advances tend to be interdisciplinary, which is great when you're at school. You can study many things. The thing about integrating innovations from one domain into another, where the sort of stovepipe thinking within businesses, within academic disciplines, tends to isolate the thinking. If you can be one of those cross-pollinators, usually you can think of a disruption that hadn't been thought of before. Now, I might argue that most of the game-changing advances in science tend to come from that field. Not from the warmth at the center of the herd but from some unusual thinker out of the box. The changes are also nonlinear. It's very hard to make business predictions using straight lines and paper when the curves are exponential. And then, you got maybe fundamental lack of thinking or lack of use of log paper in business to make this such a predictable advance for the new entrant, like Apple entering the music business and taking the Walkman franchise from Sony.

I mean, you could have predicted flash memory prices and disk drive prices and seen the point when the tape drive was going to disappear; yet the incumbents just did nothing about it. They somehow couldn't see that change that would inevitably occur in their business as it went digital.