



## Stanford eCorner

### People, Passion, Perseverance: You've Got Entrepreneurship (Entire Talk)

Steve Case, AOL, *Revolution*

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People, passion, perseverance. Former AOL CEO and Chairman Steve Case describes these words as the bedrock of successful entrepreneurship. Heading into what may be a "golden era of entrepreneurship," he says that he relies on the "three p's" as assessment tools to help guide his direction and goals. When all of the three parts are in balance, an entrepreneur can achieve success like that of AOL; when they aren't, you get the failure of the AOL-Time Warner merger.



#### Transcript

Good afternoon. It's good to see all of you here on the Stanford campus, and Entrepreneurship Week is terrific. I'm also here for Stanford Parents' Weekend. I have a freshman who happens to be in the audience, but I'm not going to call her out and embarrass her. But I would like to get started by having everybody stand up for just a minute, just to make sure you're awake. You can do this. I'm going to take a little picture of you here. Yeah, I am. Alright, you're not that good-looking a group, I must tell you. All right, here we go.

Alright, got the picture. And now I'm going to tweet it, so you're going to be live. And it's also going to update my Facebook page. So all of you - at least this side of the room, I don't have - this iPhone doesn't have a super wide angle lens - We'll now be live. I told Tina Seelig I'd help promote Entrepreneurship Week, and I just did. I had a lot of fun with Twitter lately, posting messages from time to time. But I must admit there's some people, including my daughter, that are a little annoyed because I have my Twitter feed automatically connected with my Facebook page, and so she says with all the postings I've got I'm kind of overwhelming her news feed and she's threatening to unfollow me. Or unfriend me, I should say. But of course, I think she's a little worried about that because she might think I will un-allowance her. Anyway, Entrepreneurship Week is a great thing.

It's a terrific time for Stanford. But it's particularly important, I think, right now as you all know is our country is struggling a little bit, a sort of an economic malaise, if you will. And there's only one thing that is going to kind of get it back on track, and that's innovation and risk-taking and entrepreneurship. There is a lot of things that can be done and are being done in Washington, D.C., which is where I live, but ultimately there is only so much the government can do. It really requires the private sector and particularly requires entrepreneurs. As you all know, the large companies, once they get to a certain scale, they kind of play defense, they're more focused on protecting what they have. It really requires the entrepreneurs who are playing offense and kind of swinging for the fences to do great things. So entrepreneurship is important not just in terms of creating new services that can improve people's lives or creating value that rewards shareholders or employees. It's also important in terms of the underlying economic future of our country. And if the third century of America is going to be as good as the second century, it's really going to require people like you to take those risks.

Hopefully, you'll be somebody in the audience creating the next Google that went from 10 years ago, probably 10 or 20 employees, now I think it's 20,000. Or AOL, which when we started it had about 30 employees; at the peak, 10 years later I think we had about 12,000 employees. That's great in terms of those companies and their particular success, but if you multiply

those successes by 1,000 or 5,000 and the ripple effect in the economy, it's really quite extraordinary. So it's important both in the context of entrepreneurship as a business-building opportunity, which I'm sure is attractive to some of you, but it's also critically important in terms of our nation's future, which is why it's great to be here. And in terms of thinking about a talk like this, it's hard to know really where to start, and I think it's always good to try to keep it simple. I'm sure some of you have heard of the KISS principle, "Keep it simple, stupid." So I'm going to try to keep it really simple. I'm basically going to give you essentially one idea to remember, and I'll come back to it a few times in the talk, and I'll try to leave a reasonable amount of time for your questions. And the idea is basically this: in terms of success, in business, probably success in any organization, but particularly success if you are focusing on being an entrepreneur, it requires the three P's. And the three P's are: people, passion, and perseverance. If you have all of those together in the right balance, almost anything is possible; if you don't, nothing is possible.

So I think it's really important to focus on people, passion, and perseverance. And rather than kind of go through a traditional lecture and talk about that, I thought I would do it in the context or through the prism of my own story and tell you how I got started and sort of the journey I've been on over the past 30 years or so, and perhaps that would be instructive. And I'm going to break it into three parts. The first part was the growth of AOL and how the Internet came of age and some of the things I learned there. The second part was when AOL and Time Warner merged. And that didn't work so well, so I'm going to try to keep that part a bit short. And then the third part, which is sort of what I've been doing recently, a little bit of, I guess, a rebirth or resurgence, kind of going back into the garage and creating new companies in some of the - it's just still a work in progress through this company Tom mentioned, Revolution, and I'll talk a little bit about what we're doing and why we're so passionate and focused on the right people and trying to persevere. So as I said, my story really begins about 30 years ago. I actually was a senior at college at Williams on the East Coast, and I remember reading a book called "The Third Wave" by an author by the name of Alvin Toffler. And Alvin Toffler's view is sort of a science fiction guy, kind of a futurist, kind of predicting the future.

But I remember reading this book and being completely riveted by this notion, what he called "the electronic frontier," that someday people would be connected to technology, to different devices, and be able to connect to people and information all around the world. And most people reading that book were thinking of it in the context of kind of futuristic science fiction. I remember reading that when I was a senior, as I said, in college and knowing it was going to happen and being certain it was kind of the next big thing. So I was completely captivated by this notion. Indeed, when I was a senior, I started to look for jobs and apply. The letter I accompanied my resume with talked about this, and I wrote this down because it's sort of interesting. My quote: "I firmly believe that technological advances in communications will result in our television becoming an information line, newspaper, school, computer referendum machine, and catalogue." So that was 30 years ago. IBM PC hadn't yet even come on to the market. But there was something bubbling with this idea of something happening in this interactive world. By the time in 1980, when I was graduating, there weren't companies doing this.

It was still more of an idea than a reality. So there were no companies to join to be on this journey. So I went the more of the corporate route and for a couple of years worked for Procter & Gamble in Cincinnati, a great marketing company. I learned a lot of things. And actually, at the same time I was there, a lot of other people have gone on to great things in technology. Steve Ballmer from Microsoft, or Meg Whitman, for eBay is now running for governor, or Scott Cook, who's the founder of Intuit. We're all kind of hanging around in Cincinnati at Procter & Gamble trying to learn about consumer research and marketing and so forth. I did that for a couple of years, and then moved to PepsiCo, at a division called Pizza Hut, which I'm sure you're familiar with. The reason I did that was because it was highly entrepreneurial. It really was a company run by the franchisees, almost the opposite of Procter & Gamble, which is more of a kind of top-down, very process-oriented company where all the key decisions were made in Cincinnati.

At Pizza Hut, really all the big decisions were made by franchisees in different markets. I did that for about a year. But all the while, I was still completely captivated by this idea of interactive services. So my day job was really, you know, what I was doing, kind of making a living and trying to learn some things, but really, my mind was really much more focused on this idea of interactive services. But I couldn't quite figure out how to break in. Finally in 1983, 27 years ago, I moved to Washington, D.C. to join a company that had a product called GameLine. And again, this is just when PCs were beginning to come on stream. Very few people had an Apple II or an IBM PC, but almost everybody had Atari video game machines. And so the idea of GameLine was you plug a modem - it looked like a cartridge but actually was a communications modem - into your Atari game machine and essentially plug into the phone line and then could connect to the world, initially to download video games, almost an in-home arcade.

You push a button and the game would be downloaded. But over time, it could move into interactive service, e-mail and stock quotes and so forth. So I finally have found my opening, my big opportunity to get into this interactive services world and join that company in the summer of 1983. But this is where I learned about perseverance because what seemed like such a great idea then, within months was a disaster at the brink of bankruptcy. Just as they are shipping the product - everybody gave it great reviews, everybody was excited, but just as it was kind of coming to market, the Atari video game market really

imploded. And suddenly the retailers - K-Mart and so forth - no longer wanted any new Atari video game products, let alone some wacky new concept like GameLine, so basically cancelled their orders. And the ones that took them didn't really promote them and very few people bought them. I remember at one of the board meetings, one of the investors, which actually is a company based here that is highly regarded, probably the best known and most respected venture capitalists in the area, Kleiner Perkins Caufield & Byers, one of the founders, Frank Caufield, was on the board of this GameLine company at that board meeting in, I guess, the winter around 1983, looked at the sales statistics from the retail stores and said, "You would've thought they would've shoplifted more than that." That's how terrible the sales were. So this really was pretty dicey. My parents, of course, were a little uncomfortable about this new development.

They kind of knew what I was doing at Procter & Gamble, didn't quite - kind of knew what I was doing at PepsiCo, it seemed like real Fortune 500 companies so that they could explain to their friends. Suddenly I went this entrepreneur route to GameLine, and within almost months the thing was on the brink of defeat. Well, we stuck with it and thankfully two of the people I met there and I went off in 1985 and started what became AOL. We redirected it, not surprisingly, away from Atari video game machines and towards home computers, which were beginning to catch on. And we launched in the fall of 1985 our first service, which was for Commodore 64 computers, called Quantum Link, or Q-Link, and it was focused on how do you take to that fairly basic computer and try to make it into more of an interactive services terminal. And then we launched a service with Tandy called PC-Link and with IBM called Promenade, and that was a big breakthrough because IBM was the first computer - this is back in probably 1988 or 1989 - that actually built a modem into a PC. Up until then, the PC manufacturer didn't think anybody cared about the interactive services world. They're going to buy a computer for spreadsheets and word processor and store recipes. There is the idea that people wanting to talk to other people or access information seemed a little crazy. It's only something kind of weird hackers might be interested in.

But finally IBM agreed that maybe they should give it a shot and built a modem, and that was really important. And then we launched a service in partnership with Apple called AppleLink Personal Edition. So that whole period from 1985 to 1990 was really about creating private label services in partnership with PC manufacturers, which was important for us because we had no money. We had a few million dollars of venture capital. We were competing at the time with a company called Prodigy that was backed by IBM and Sears, and they backed it with \$1 billion. So we knew we couldn't compete kind of head-to-head. We had to come up with some other strategy, and partnering with companies and developing these private label services was a key strategy for this. And if you look back now, 25 years ago, with the launch of Q-Link and some of the other services, there really were a number of breakthroughs that really, in retrospect, were quite significant. The first was the first online service to use a graphical interface, to take advantage of the power of computers to make an interesting service. All the other services like CompuServe were text-oriented services.

It was the first to offer that software for free. Using a razor and blades analogy - actually something I learned at Procter & Gamble - you sort of give away the razor to make money on the blades. Everybody else was selling software. We chose to give the software away and give people a free month with the idea that if they liked it, then they would become paying customers. We also were the first company to launch a graphical multi-player game, something people take for granted now. In 1986, we partnered with George Lucas and Lucasfilm to create something called a "Habitat." We also were the first company to really, really focus on community. IBM and Sears were focusing on computing and selling stuff, and other companies like Knight Ridder, a newspaper company, was focused on Viewtron, which is sort of an electronic newspaper. We said the real killer app in this medium, and really the soul of this medium, was going to be community, people interacting with each other. So we launched chat rooms and message boards, and then in the fall of 1985, launched the first instant messaging, IM, which obviously has become a mainstream application, including now with texting on phone. So the company really was quite innovative in that timeframe.

Now I know you're sitting there - as a lot of you weren't even born at the time I'm talking about - trying to kind of relate to this, and so I had one of the people I work with. We whipped together a little video over the weekend to try to give you a little bit more context. And whoever is going to start that video, if we could gear that up. But let me give you, before we push the button, a little bit of context on it. Basically, it's trying to make a little bit kind of "Back to the Future" funny, but there's two different interviews with little demos in this short - and I think it's three- or four-minute video. The first was filmed in 1987, and it's me in my first ever television interview talking about Q-Link. And I was as nervous as you could be. I don't think I slept that night. And it was for a show called "Computer Chronicles." It actually was filmed not far from here, in San Mateo. I really thought, you know, the big leagues.

"Computer Chronicles" was only aired on a few PBS stations, but I really thought I had kind of arrived, and I'm trying to explain the service. But more importantly, watch the screen. Because what was then viewed as pioneering in terms of a graphical interface to make it easy to use, it's somewhat laughable looking back 25 years later. And then the second interview was seven or eight years later. I think it was 1995. And PBS, their news hour, did a longer kind of 10-minute piece on AOL. This is really when the Internet was coming of age and kind of AOL was on fire. That kind of gives you more of a sense of what we were doing with AOL in the mid-1990s. Again, in retrospect, 15 years ago, some of the things that were then kind of

breakthrough, pioneering, looked a little quaint, but hopefully you will enjoy this. Let's roll the tape.

I noticed that in that second interview, somebody must've told me, "Talk slowly," because I feel like I'm drugged there watching it right now. "Talk slowly. Make sure you enunciate." Is he asleep or is he awake? Anyway, it was - I talked to you earlier about the private label service strategy. I want to talk a little bit more about what we did with AppleLink because I think this also ties in with one of those P's, which is perseverance. We actually, in 1987, entered into an agreement with Apple to license their brand name to create AppleLink. They had never licensed their brand name before, so it was a big breakthrough that we were able to convince them to do this, particularly good cause we're a little company there with probably 75 employees at best. So we were all excited. We thought this was just terrific. AppleLink. We were kind of, "We've made it." And we launched the service the next year in 1988 and we basically pulled the plug on the service the next year in 1989.

And the reason is, although it was, yeah, we thought at the time a great coup that we were able to do this deal with Apple and get their brand name. Almost from the day we signed the deal, they hated it. Because they really have gotten uncomfortable about the fact that some other company had their brand name and they were uncomfortable about the way we were marketing the product. They were selling software through retail stores, we were giving software away. There are a lot of different things that we were kind of at loggerheads. Well, actually, less than a year after we launched this service, they basically said, "We're just too uncomfortable." They paid us millions of dollars basically to go away. They just decided they just didn't want to be in this anymore. So then we had a real crisis on our hands. It's not bad that we got some money out of it, but that had been our strategy - partner with these private label services in conjunction with PC manufacturers. Apple was emerging as a real force and suddenly, that deal blew up in our face.

So that was a real crisis for the company. And it led to a new strategy. We said, "Look, we can no longer rely on these partnerships. We really need to stand on our own two feet and kind of have our own brand." We had no idea what to call it. We had a little contest internally and America Online became the name that emerged from that. I mostly picked it because simply we had no money to market it, at least explain what we did. Some of the other services at the time like Prodigy and CompuServe, they're not quite sure what it was. "America Online" was pretty clear what we were up to, so that would be helpful in terms of our relatively limited marketing budget. And so we relaunched the service in 1989, 1990 essentially as America Online. And as you know, it quickly kind of got nicknamed, by really our members, as AOL, so it evolved to be more and more AOL.

And that's really when AOL started coming of age, partly because we had our own brand, standing on our own two feet, but also some things were starting to break in our favor instead of, as we saw, for most of the 1980s, kind of fighting the tape. People didn't really believe in what we were doing. They didn't even understand what we were doing. I'd go to technology conferences like PC Forum and there would be 500 people there and I would be the only person who was focused on online service. Everybody else was talking about semi-conductors and different devices and Ethernet and so forth, and I was kind of a little wacko in the corner talking about online services. "Someday people will do this. Someday people will do that." And most people really didn't believe. But as the 1990s broke, people, things started breaking in our favor. A big breakthrough was in 1992. And again, what seems silly to many of you at this point, but up until 1992, it was illegal to connect to a commercial service like AOL to the Internet.

The Internet had been funded by the government and up until 1992 was really for non-commercial use. And so you could use it in educational institutions, government contractors could use it. Government, itself, could use it, but you couldn't actually do businesses on it. And Congress passed a law in 1992 that basically allowed companies like ours to connect to the Internet. That was a big force not long after the World Wide Web was created, the Web browser was developed, and that's when really things started taking off. So it was really 1992 when there was a breakthrough. We had started the company in 1985. In 1992, it actually went public. We were the first Internet company to go public, but even then people didn't quite understand what we did. And in fairness, after seven years, we had I think it was 184,000 customers.

We had something like 70 employees. And the market value of the company of the first day of the public offering was \$70 million. It was just another little company going public. Nobody particularly knew or cared what this company was up to. Needless to say, the rest of the 1990s, things really got on fire. And by 2000, we had - market cap had gone from \$70 million to over \$100 billion. We had gone from 185,000 customers to I think we peaked about 20 million customers, and gone from less than a couple hundred employees to over 10,000 employees, all in kind of an eight-year period. We liked that period. That was a good period. And then the question was, what do we do next? That we had done I think a great job in creating a service that really struck a chord with the mainstream audience.

We really created an easy-to-use, useful, fun, affordable service, and as people started learning about the Internet and they wanted to get connected, the majority of Americans started their Internet experience with AOL. As a result, we had created what was sort of the dominant company in at the time what was the hottest industry arguably in the world, and also created a very valuable company. Actually, if you look at the stock market in the 1990s, AOL was the number one stock in terms of performance, bigger than Microsoft or Cisco, in terms of if you bought it at the IPO and kept it at that whole period what your

return was. Everything was going great. But we had a few problems. And that's why as we entered the next decade, we were really focused on where we were going to go from here. The first was, it was great that we suddenly had this \$100 billion valuation, but we knew it wasn't trivial to sustain it. I can't remember exactly what our multiple of revenue in earnings was, but it was at least a hundred. It was hard to see how you would sustain that. So looking to use that currency to acquire other assets and diversify the next became important.

The second is, we had really dominated in the first wave of the Internet, which is a narrowband, connecting people through telephone lines and through their computers with these devices, but we didn't have a clear path of broadband or wireless, which we knew was the next big thing. And so the question was, how do we partner or merge with a company that had a broadband capability? And frankly, from a personal standpoint, I was getting a little worn out. I've been running pretty fast for the better part of a decade. It was kind of like being on a bucking bronco and the speed kept getting accelerated. I really enjoyed the early stage for the first decade when it was kind of pioneering and you're making things up as you go. The second decade, when it really was scaling and it was just more about, frankly, being an icon and go making speeches and traveling around world, some part of that was fun, but it actually wasn't as fun for me as the first part of the decade. And frankly also, I had a young family and I recognized it was probably time to focus a little bit more on that. So from a personal standpoint, I was trying to figure out what the next phase would be for me. For a variety of reasons, and there are others as well, exactly 10 years ago last month, AOL merged with Time Warner. And we thought this was the perfect deal because it essentially would ensure AOL's transition to broadband, because Time Warner was the largest owner of cable systems that had a broadband capacity and also the largest owner of multimedia content - CNN and Time magazine and so forth - that we thought would be valuable in a broadband world.

We also thought that Time Warner's weakness could be addressed by AOL because they had very strong positions in traditional media but didn't have their own path to a digital future, and the combination and the synergies that could come from bringing these companies together really would be great and kind of drive accelerated growth and revenues and profits, and everything would be terrific. When we announced the merger, everybody agreed! Indeed, some of our competitors, Microsoft and Disney and others basically marched on Washington to try to block the merger because they thought this company would just be too dominant and somehow would control the future. But it took a year to get it approved because of all the different lobbying forces that were out there at the time. But finally we were able to bring this together and launched it. As part of that, bringing it together, I did agree to step down as CEO and become kind of Chairman of the Board, which was frankly an important way to get the deal done but also satisfy my own desire to play less of a day-to-day role and be playing much more of a strategic role. So what happened? If these two great companies with great, great histories come in together at the turn of the century to create this new company that would really drive convergence and help reinvent digital music and a whole wave of services, yet 10 years later, people look back at what was the largest merger, and still is the largest merger in history - at the end of the day, when we announced the merger, the market value of the combined company was \$350 billion. And the announcement was such a big deal. It was the lead in all the network news. I remember, the weekend after we announced it, I was walking through Dulles airport, looked at the newsstands and sensing every cover of any - Time, Newsweek and Business Week and Fortune were all focused on this merger. Everybody thought this was the next big thing and almost guaranteed to work - indeed, that's why there was so much lobbying to oppose it - yet now is looked back as the worst merger in history.

It is! So what happened? As I dissect it, there are a few things that I think are important lessons to learn as you think about your entrepreneurial futures. The first - and this was only a factor, but it's worth mentioning - there was a perfect storm of things that really were unfortunate, a lot outside of our control. Almost immediately after the merger closed, the economy went into recession. Almost immediately, therefore, the advertising revenue, where the core revenue streamed into the company, was kind of in freefall. And the Internet boom that had been driving market value in the later part of the decade really became the Internet bust. So, I mean, we called it the sort of the Internet's nuclear winter. So a variety of kind of broader systemic things were happening. But that really only accounts for part of it. And I think that did translate to some things that led to some anger and resentment a bit since we actually ended up, in retrospect, doing this deal at the peak of the Internet values. And as I recall, AOL, at the time of the merger, was twice as valuable as Time Warner even though Time Warner had four times more revenue and earnings.

So it was a little bit of a mismatch. And when things slowed down, people on the Time Warner side were none too happy about that. And so that created a factor. But the core of it goes back to these three P's: people, passion and perseverance. On the people side, what seemed like a good idea quickly became a culture clash. People were focused on the wrong things: not really focused on innovation, more focused on their own issues. On the passion side, frankly, a lot of what drove AOL in the 1990s was lost. Some of the most creative, pioneering, innovative people kind of wandered off and became more corporate. And on the persevering side, probably because things had corrected in the Internet sector, there was a sense that maybe this Internet really was just a fleeting phenomenon. It wasn't really a sustainable phenomenon.

So instead of continuing to invest in innovating, their tendency was to back away from it. I remember one of the last deals I did before I stepped down was we invested in Google. We bought 5% of Google for essentially next to nothing. But that stake

was sold immediately when Google went public. If they had held on to the stake, that 5% in Google would be worth more today than AOL is today. But their sense was just kind of, you know, "Let's monetize this and move on." So it was disappointing at a variety of levels, even though I didn't have any day-to-day role as Chairman of the company, I was sort of the visible target, frankly, and decided about eight years ago to step down as Chairman. I thought it would be good for the company to have a fresh start and be able to kind of look, focus more on the future than the past. And also frankly, for me, it was recognizing that having a role where you're kind of held responsible but don't really have a day-to-day authority to make things happen is kind of not a great place to find yourself. So, I left. And it was a disappointment because we had such a great run up until then and the merger was launched with such fanfare and promise.

As I think back on it, it's not just the three P's to keep in mind on. It's also what Thomas Edison said, which I think summarizes this merger in five words, which is: "Vision without execution is hallucination." We had a really good idea, but we didn't focus with the right people, the right passion, the right perseverance on executing that vision. So the question for me was, what do I do next? And I was, I don't know, a young 42, 43 at the time, so I wasn't quite ready to kind of give it up and golf or something like that, because I'm not even good at golf. So I was trying to figure what do I do next? And as I reflected on that run over 20 years, as I said earlier, I realized that I really liked that first decade, the pioneering decade more, and so I decided to launch a new company, Revolution. And our focus, our mission is to invest in people and ideas that can change the world. And interestingly, that's exactly the same mission we have at the Case Foundation, which we launched, my wife Jean runs. Invest in people and ideas that can change the world. Sometimes you could change the world by investing through the prism of for-profit businesses and sometimes you can change the world by investing through the prism of not-for-profit, philanthropic organizations, but the core idea is the same. On the Revolution side, we focused in the last five, six years on a variety of different industries that we think are ripe for disruption. We really want to take risks and swing for the fences and try new things.

We recognize we'll fail sometimes, but we'd rather take those risks. And frankly right now, there's too many entrepreneurs, too much venture capital that isn't taking a big risk. They're taking kind of a little risk. And it's more of a built-to-flip mentality as opposed to a built-to-last, change-the-world mentality, which troubles me a little bit. It's actually become, particularly the Internet space, a little bit like the entertainment business. It's relatively easy to produce a record. It's actually relatively easy now to produce a movie. But it's relatively hard to build a big audience in a significant franchise. So the barriers to entry have come down. Now anybody can create a Web site.

But as a result, there is significant competition. And real the battle is not just about the product. It's really about all for attention and being able to sustain that. And as a result, there are relatively small amounts of money going into these companies, which is fine, but they genuinely don't have the ability to take significant risks. Our strategy is a little different. We're willing to take significant risks. Indeed, we want to find the opportunities that are going to take five or 10 years to really come to reach fruition. An example is we were focusing on the transportation sector. We backed a company called Zipcar, which is on the Stanford campus. Some of you may be familiar with it.

It's a very basic idea that if you live in a city, you shouldn't own a car, but occasionally need access to a car, so we park those cars in a neighborhood and you'll use them whenever you want. It's more environmentally friendly. It's more economically sound for people. People in most cities will spend a thousand dollars a month to have their car, if you look at the insurance and the parking and so forth, and use it four or five times. So it's crazy to own a car. Zipcar is a much, much better way to go. And the company has really taken off. There's over \$100 million in revenue now. I think something like hundreds of thousands of people are sharing probably 6,000, 7,000 cars right now. And it's really the early days in terms of that car-sharing business.

I wouldn't be surprised if the whole automobile business didn't migrate from a product business to more of a service business, a little bit more like cellphones. Right now you buy a car and then you just pay for gas. I could imagine models like Zipcar will become much more significant as Detroit tries to reinvent itself. Maybe it's more like, you get access to the car at a lower price and there is sort of an ongoing monthly service fee, but even better yet, you only use it when you need it like Zipcar. So that's one example. We've also invested in a number of health care companies. We think health care is broke in this country. We think the government can do part of it, but the private sector needs to do its part as well. And ultimately we think it's about empowering consumers to understand their health and be able to make healthier choices by educating them in giving them tools and also in using technology as supporting tools. We've funded several companies there.

The most visible one is a company called Everyday Health, which is now one of the leaders. I won't talk too much about them because they actually, a couple of weeks ago, filed for public offerings, so they're in what's called the quiet period right now. So I don't want to get them in trouble. We also backed a company in the resort business called Exclusive Resorts. The idea that, it's kind of crazy to own a second home that you only use a few weeks a year. I mean, you join a club that gives you access to hundreds of homes in dozens of destinations. We also funded a company called Revolution Money that was really a financial services company. And this is actually a great lesson in perseverance. It was initially launched about four years ago, I was very excited by the idea of creating a new kind of credit card, digital payments and sort of like what Paypal is doing,

around this flexible platform for online and offline and debit and credit and so forth, and Deutsche Bank and Morgan Stanley and all these companies were investing in it. And then suddenly, about two years ago, the financial service market started imploding.

All these companies pulled back and the company was really in serious straits. But they stuck with it and the investors stuck with it, and just last month American Express bought that company for \$300 million. So I think it's a good example of what seemed very bleak just a couple of years ago, they were able by sticking to it to build a significant company that they will power much American Express's strategy for the coming decade. So that's sort of my story. The early days of AOL and trying to - with this crazy little notion 30 years ago after reading "The Third Wave" about the interactive service and electronic frontier, playing a role in building that and making that a mainstream kind of everyday phenomenon, followed by the second phase and the merger and trying to deal with some of the fallout from that, and this third phase, really getting back into being an entrepreneur and doing pioneering things in partnership with lots of different entrepreneurs. So in closing, before I open it for questions, I just want to end where I started, which is the notion that an entrepreneurship really is critical in this country. It's not something just to do to make a buck or to create innovative service, although both of those are fine and, indeed, important. It really is the underlying engine of innovation that will ensure a bright future for this country. So it actually is a patriotic thing to do and not just an economically motivated thing to do. And it's very important to understand.

The second is, I actually think we're entering into what may be a golden era for entrepreneurship. For the reason I mentioned, a lot of the big industries and the big companies are playing defense. They're more focused on protection and defense, not attacking an opportunity. And that's going to create enormous opportunities across, I think, our entire economy for bold entrepreneurs swinging for the fences. And finally, I just want to remind you about those three P's because for me I found them to be very important. I try to reassess from time to time what we're focusing on, what the companies we're invested in are focusing on, do you have the right people that are aligned around the right priorities, is there an underlying passion not just from the founder and CEO but that's really spread through the whole company, and when times get tough, and inevitably they do, they have the fortitude to see it through it, that perseverance factor. Those three P's for me have been very important. And let me end there and start taking your questions. Thank you. For those of you who don't know, I'm Steve Blank.

I teach several entrepreneurship classes for Tom Byers and Tina Seelig in the STVP Program. I also teach a class called the "Spirit of Entrepreneurship" which Tom mentioned, which surrounds this class of - those of you who are enrolled, you know what we do is we listen to the ETL speakers, we analyze their business models with their companies and try to understand how their companies got from one or two people in a room to a large and major corporation. And the "Spirit of Entrepreneurship" class gets typically the first couple of questions. Given the size of the audience today, I'll just hold it to one and then we'll open it up to others. And so Steve, just kind of segueing into the entrepreneurial spirit: You started your career as a product manager with some of the best training that one could ever get in large corporations. Can you remember your first couple of weeks or months in your startup, 1983, thinking what is it I didn't learn at Procter & Gamble or Pizza Hut because none of this works like that? What was kind of the entrepreneurial disconnect you had? Well, I should give you a little bit more context. The simple answer is a company like Procter & Gamble, have developed over a century really good processes for kind of managing, but they tended to be focused on incrementalism. So any idea you want to do takes some time to pass. I remember, one of the - I was working in the beauty care side of the business, hair conditioners, things like that, and we were going to test having on a package instead of - it's called the price tags. They have 20 cents off, it was going to be 25 cents off, and instead of orange it was going to be yellow.

Relatively basic things. At the time, these changes, to do that would take two years to do a test mark to see which color was better and whether 25 cents really lifted sales versus 20 cents. So it really is focused on really fine-tuning things, and they've been very effective. They're still the largest, most successful consumer packaged goods company in the world. But it wasn't, as you say, kind of really honed on entrepreneurship. Thankfully, when I was growing up and as a teenager, I was involved in a lot of different businesses and starting different things. None of them were successful of any real scale. But I had that experience of kind of starting things and taking a risk there. So for me, the decision to go to Procter & Gamble was a decision, even though I had this leaning towards entrepreneurship and this passion towards interactive services, that I knew it would be a smart thing to do and I'd learned a lot by doing it. So it's almost for me like going to a business school or something.

I should say, coming out of Williams, but I did apply to Stanford Business School. I got rejected, so therefore I had to go start a business. And that's why you're going to be a donor to the Engineering School, right? Yeah, well, we'll see. We'll see. So what- Well, we'll go to the audience now. Questions. Yes? Have your mics around? Microphones? Will you stand up? Yeah, there's mic stand so stand up and-- Stand up and - so we can get it on tape. And so for anybody that has questions, why don't you guys line up at the mikes? Both sides of the aisles. OK. I'm wondering if with consumer products and services, how important would you say luck would be a factor in being successful? Well, I think luck plays factor, but one of the truisms is if you're working really hard and showing up a lot, you know, those people tend to be luckier.

There is something for being at the right place and at the right time, but there's also something for kind of peeking around

corners and trying to understand where to position yourself so you're in the right place. And so, it's a mix of factors. Anybody who's been successful would credit some degree of luck to it. At the same time, to suggest that, well, it's all about luck, so I guess it doesn't really matter what I do, I'll either strike gold or I won't obviously isn't true either. So it's a mix of factors. But a lot of it is just being aware, paying attention, and kind of scanning the universe, sort of looking for something like pattern recognition, looking for opportunities, and getting a sense of where you should be going, and at some point a sense that now is the time to really slam down the accelerator. Yes, on this side. I was a retail stockbroker from the late 1990s. I just want to first of all say mahalo, I made a lot of money in the AOL stock. Thank you! Secondly, right now I'm in online education thinking of, is that going to be a great equalizer for Third World countries and people in disadvantaged communities to gain access to higher education? And how long do you think that'll take to gain traction? But lastly, I know you were at Punahou School with Barack Obama at the same time.

Was he actually a juvenile delinquent the way he was? Hah! OK. Well, let me take the last question first. I did go to Punahou School in Hawaii. We were in high school together. I was a senior when the president was a freshman. It's a pretty big school, so I can't say we were like best buddies. I kind of vaguely recall playing basketball with him a few times, but I don't think we ever had any classes together, and so I can't really comment on his story. I do know when he started running for president, somebody figured out that we'd gone to high school together. So I was getting all these calls, the New York Times, you know, "Tell me some story about Barack Obama!" And I was tempted to make something good up but - I've always thought that maybe I'd benefit if I came up with a real doozy. But I decided to be honest and say, "Well, I actually don't really remember him." But I think he obviously ran a great campaign.

And he's had a tough first year, and most presidents do, particularly in a difficult environment like this. But I think the perspective that he actually brings apart from being in Hawaii, as you know, growing up there, it's sort of a more of a melting pot and there is more of a sense of how do you bring people together than perhaps some other areas of the country, so hopefully that bodes well. In terms of education, I do believe technology can be an important equalizer and indeed - one of the initiatives our foundation did about a decade ago was create technology centers in over a thousand community like boys and girls clubs and schools and churches called Power Up, because we really wanted to make sure we bridged this little divide and we didn't have these technology tools only available to people who could afford them and actually potentially exacerbate that divide. And there's still some divide today, but it is less than it was. And the ability for people anywhere around the world to access information, courses like this one and have almost a ubiquitous access to information obviously is important. At the same time, you can't underestimate the importance of learning the basic skills, particularly in terms of how to digest, absorb, analyze and communicate information which is going to continue to be the bedrock of education. And I think it's going to continue to be done in a physical space, so making sure our elementary schools and high schools and so forth really are in better shape in the future than they are today is an important part of that. So technology and add on, I do think it leads to much more of a sense of lifelong learning. It's not so much what you learn when you're in school. It's really learning some basics, learning how to think and communicate, but then having access to information really for the rest of your life.

So it's a tremendous tool. But we can't simply point to technology and think that somehow we've solved the problems of education, which obviously are much more complicated and challenging. Yes? I was going to say, what do you say are the biggest problems in the opportunities especially around health care, education, and also power? And also the other way is monetization on the enterprise. Because there's problems, but there's also big option for most cost saving to give you the most abilities. Yeah. The answer to that question is sort of the same, which is our country and many other countries have built infrastructure over the past century to basically power some of these different industries, whether it be the physical structures in terms of schools and how schools are organized and how long you go to school and how teachers are organized and so forth, which is hard to change. Health care, particularly in this country, is basically focused around who pays. It's less about provision of service. It's more about who pays. Unfortunately, it's not really a health care system.

It's really a sick care system. It's not so much focused on keeping you healthy, it's more a triage when you get sick, and the motivation incentives are more about dealing with sick care. And we need to change that psychology and that culture, so people are generally focused on health, not just focused on dealing with illness. And power is similar as well. Huge infrastructures have been built, they've been great and served us well for the past century, but new technologies are emerging and there are many companies around the world doing interesting things that really can start from scratch. And I think most people recognize that if they had the opportunities are from scratch, whether it be communication systems or power systems or what have you, they would take a different path than we took 50 years ago or a hundred years ago. Obviously a lot has changed. Indeed, if you look at what is happening in developing countries, they are placing fundamentally different bets. And in the case of communication, for example, nobody is bothering to dig up the streets to run wires whether it would be for a telephone or cable. They're completely embracing wireless.

So the challenge is how do you bridge what we've built and invested gazillion dollars in over the past century to be more nimble and flexible for the future? Yes. Steve, you know, I have a two-part question. The first you mentioned luck, and I think luck is when preparation meets opportunity. And having said that, there is also a lot in it that's timing. And you were very

fortunate, as you described, years in how the Internet, the advent of the Internet, and your timing was just spot on. There's a lot of entrepreneurs that somehow have wonderful ideas, have wonderful passion, have great people, but the timing is just the wrong time and the company doesn't work. And so the second part of the question is, I want you to obviously address the first part is that, you spoke of some companies that didn't work at Revolution Partners and the ones that didn't work when you first started in entrepreneurship. What I always found interesting is when a company does well, you know why it does well. And maybe it's the people and the passion and the other things. But when it - I'm sorry, you necessarily don't know why it does extremely well.

It just does well. OK? All right. What I have always found is that you learn the most from something that fails. And what I'd love to hear is, are some of the ventures that you've done, that you've attempted, that didn't work, whether in your own personal life before AOL and then with Revolution Partners. Well, a bunch of things out there. I would say this notion of luck and of having opportunity aligned, obviously that, as I said before, plays a role. At the same time, perseverance really does matter. As I was trying to explain, in the mid-1990s, AOL, suddenly a big deal. It seemed like an overnight sensation. It came out of nowhere.

It was kind of one of the hottest companies in the country. But we were a 10-year-in-the-making overnight sensation, because we really had started more than a decade before people even knew what we were doing. And there were a lot of periods during that development that we had tough times. We went through layoffs and lost some partnerships like Apple and so forth. So it wasn't like we just woke up one day, hung up a shingle and the world beat a path to our door. There were lots of ups and downs, and there were a number of people who were there in the early days who basically bagged it. They said, you know, "It's too risky. I don't believe in this thing anymore." But thankfully there were enough that stuck with it, that really believed in the idea and were passionate about the idea, and eventually things developed. So I think one of the lessons is, going back to perseverance. If you really believe in the idea, figure out a way to stay in the game.

Now that may mean cutting your cost by having to go through some difficult things just to make sure you can survive and live to fight another day, but don't give up if you really believe in the idea, because eventually if you're right on the core assumptions, then eventually the market will open up and you'll have that opportunity. Way too often, people kind of give up too early. They hit a bump in the road or maybe kind of a brick wall, they're great... The great entrepreneurs just figure out a way to get around the wall, get over the wall, or just knock the wall down. They don't let anything get in their way. What about failures? Well, I think-- Whoa, whoa, whoa. Let's let someone else ... One more question. One more question. The biggest failure, obviously what I talked about was the AOL-Time Warner merger, which I think still was a great idea that was terribly executed and that was a great disappointment.

I have others too, but that's the great doozy. Yes? Hi, so your company, it's Exclusive Resorts. I'm wondering if there's more similarities or differences between running that and running AOL, and what those are. Well, there's a number of differences. First of all, I don't run Exclusive Resorts day-to-day. I spend like 10% of my time on it since I'm involved in a variety of different companies. AOL I was running 110% of the time. The second is, Exclusive Resorts is more about acquiring real estate and packaging a set of services around that real estate. So it's much more of a personalized kind of service, and frankly more of a luxury market just because of the nature of that market we're targeting. AOL always was about the mainstream.

It really had a connect with the mainstream audience, so we're trying to drive prices down and really make it as simple as possible for people to use the service. I remember the early calling cries in the late 1980s, early 1990s was we need to make it simple enough for my mom to use. My mom was a little offended by this analogy, but you're trying to communicate through our team that this world of technology is complicated and scary and threatening to most people, we need to figure out a way to simplify and package this so real people could use it. And the final one is that once you were able to break through on AOL, it really was about adding additional capacity, adding additional servers so you could scale relatively quickly. A physical business, like an Exclusive Resorts or a Zipcar or other things, require a little bit more of a pacing in terms of growth. You can't just kind of push a button and suddenly add 10,000 more cars and 10,000 more parking spots overnight. It requires more planning. Well, Steve, thank you very much.