



Stanford eCorner

Getting Rid of Luck

David Friedberg, *The Climate Corporation*

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Video URL: <http://ecorner.stanford.edu/videos/2796/Getting-Rid-of-Luck>

"Your pursuit should always be to remove the unknown from the equation," says CEO David Friedberg. In this clip, Friedberg shares why this is a fundamental premise in building a successful venture. He also teases apart the different roles that risk and uncertainty play in fully understanding a business.



Transcript

I equate these things to be the same, luck, risk and the unknown. When you say I got lucky, you got lucky because you didn't know what was going to happen. So, the corollary is if you know what's going to happen, there is no luck, there is no risk and there is no uncertainty in what it is you're doing. Therefore, shouldn't your objective be to know what is going to happen and your pursuit should always be to remove the unknown from the equation. And that's sort of the fundamental premise of how I think about building the business. Figure out what you don't know and then know it. And at the end of the day, you'll be left with truth or facts and you know exactly what's going to happen and your business will achieve what it is you are setting out to achieve. I had to throw a formula in. This is sort of a very basic, like this kind of cash flow analysis, the value of a company. So the value of the company is their near-term cash flows, plus what's known as this terminal value, this perpetuity value.

And the perpetuity value is the cash flow in the out year, divided by the expected risk, minus the long-term growth rate. And so if there is no risk or if the risk approximates the growth rate, the value of the company is infinity. So if you know exactly what's going to happen, your business should be worth infinity. Every business has some degree of inherent risk, so I'm sort of taking this to the extreme, right? If you understand all the risks, and you know all of the risks and you take them out of the business, then the business is worth infinity dollars. It's the greatest business ever. It's effectively the universe. If, however, you are constrained by a lack of knowledge about where the markets are headed, a lack of knowledge about what competitors might do, a lack of knowledge about whether a product will succeed, a lack of knowledge about whether you can get the product sold at a particular price point or about whether you can keep your operating costs low enough to sustain your profit margins. These are the many uncertainties that exist in later-stage businesses and there are similarly many uncertainties that exist in early-stage businesses. Will people buy my product? It's a good first question. Do users find my value proposition valuable? Is this something that's engaging? Do people - people come back? Can I build the product? Can I recruit the engineers to help me build the product? These are the risks and uncertainties in the early-stage business and the more of those you can identify, the easier it's going to be for you to take them off the table.

So identify the unknown, mitigate the unknown, and then you are enabling certain outcomes. And that's how you increase the value of your company and that's how you move yourself towards achieving the mission.