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Timing Matters [Entire Talk]

Geoff Yang, *Redpoint Ventures*

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Venture capitalist Geoff Yang challenges entrepreneurs to "think huge" and to complete the due diligence necessary to understand markets they plan to enter. Yang dispels myths about relationships between founders and investors and encourages new entrepreneurs to be thoughtful about taking on outside capital and engaging venture capitalists.

Transcript

Thanks, Tina. It's pleasure to be here with you all. My contact information is here as is my Twitter handle and if you follow - if you don't follow me, feel free, if you would like to. If you do, I apologize for all the spam that came out today. Apparently somebody hacked my Twitter account and was throwing out all this advice on how to lose 20 pounds in two weeks. And I actually didn't realize how many friends I had because I had a whole mail box full of direct messages earlier on Twitter. And people said - people were asking all about - all these new trends and things and the next thing you know it's - I guess, it's nice to hear from your friends, but I wish it hadn't been about losing 20 pounds in two weeks. But if you're interested, I will pass those on to you. What I wanted to talk to you about for the next 40 minutes or so is a little bit about timing generally, right. And I think it's a very popular topic right now about all the opportunities that are out in the market and as you know entrepreneurial activity is about as fervent as it's ever been and I'm sure some of you're thinking, wow, maybe someday or maybe now I am going to start a company and what I want to talk to you a little bit about is, if you are ever thinking about it, sometime now or in the future, I want to talk to you a little bit about the founders and kind of what makes in my opinion some of the attributes of successful founders.

I will talk about markets, because there is always this age old debate, what's more important, the management or the market, right. It's a little bit like the chicken or the egg. And it's - at the end of the day, every argument in history will come down to what's more important. Is it the people or is it the market? And you can make your own decision. I happened to be at the margin kind of a markets person, but I will tell you a little bit more about that and attributes of an attractive market. I will talk a little bit about growing a company and financing a company, in case you're thinking of starting something, you want to get it financed and this is - a lot of this is generic. I mean, obviously I'm a venture capitalist, so I'm going to give you my perspective. But I'm trying to keep it somewhat balanced because venture capital isn't for everybody, and we will talk about that for a minute. And then I will give you just some - a little bit of insight on how we evaluate opportunities and even if you don't go - end up going to a venture capitalist, I always think it's great to have the lens of - as a perspective investor because as an entrepreneur many of you will be investing your time, which is arguably an even more valuable resource than money. So with that I will just start with just - founders are just extraordinary.

And entrepreneurs are extraordinary and there aren't really any ordinary ones, I mean, I've got some pictures of some of the people we've backed recently. Dave Morin, who is the CEO of Path. Before he started Path, he was kind of co-creator of Facebook Connect and the Facebook Platform. Before that he had been at Apple where he had gone right out of school from Boulder. Then you have Kevin here from Stripe. He was - at age 16 won the European Science Award and ended up going to MIT, started a company that was trying to build tools for making eBay a more efficient environment, ended up selling that pretty much within a year after starting it. They always talk about how he became kind of a millionaire, kind of overnight at age 18 or 19 and then ended up when he sold the company, stayed there for a couple of years. And dropped out of MIT and then ended up starting Stripe in 2010, which is a way to payment enable kind of any website and they're going through pretty - some pretty substantial growth. It's Caterina Fake next to him and she finished Vassar and went to join The WELL, which is one of the first online communities in 1985, went and started Flickr. Flickr was then sold to Yahoo! and then she started Hunch.

Hunch was then sold and recently we backed her starting something called Findery, which is trying to bring life to locations, if walls could talk, so you could leave notes kind of all over the place. And next to her is a fellow named Christian Gheorghe, who is running a company called Tidemark right now. Christian has a really compelling personal story. He is a refugee from Romania. When he left there were armed guards shooting at him as he is swimming across the river, ended up getting to New York, drove a cab, ended up owning a Limo service, he was a computer scientist in Romania. So then he ended up starting a company called OutlookSoft, which did business analytics was sold to Hyperion for about $400 million. And now he is doing the same thing for business analytics in the cloud. So, I mean, all these people have very kind of compelling stories as entrepreneurs and at the end of the day, no entrepreneurs or no founders are kind of ordinary. They all have very interesting kind of compelling stories. So, as I talk a little bit about founders, there are a bunch of kind of myths that I just wanted to talk a little bit about.

The first is, founders first, idea second. And the notion is I'm going to decide to start a company and once I start a company, I will find an idea and then the idea will just come to me and that's how I'm going to start the company. And my point of view is that, entrepreneurs really aren't created, they're compelled. And the best entrepreneurs are the ones that have - they come up with this idea and they think this idea is going to change the world and I - if I don't do it, I don't know who else is going to do it and I think the world will be a better place by starting it. So, I don't believe that it's founder first, idea second, I really think it's idea first and the idea compels the founder. And that you have to have a passion for it. You can't just decide well I'm going to start a company because it's in my - I'm planning my career, now is the right time for me to start a company or I see a lot of other people starting companies, so I should go start a company. You have to be passionate about it and it's got to drive you and like compel you to start a company. The second common myth is, well, it's either now or never. Now is the time and everybody else is doing it, I should do it.

And whether or not I'm ready, you're never really ready, I should go do it. I really believe that the best entrepreneurs and I will tell you some more stories about some of the entrepreneurs as we go along or happy to do so, they build the foundation, right. And they learn and make mistakes on someone else's nickel. They figure out, for instance, you learn how to manage an engineering product, you learn how to spec projects, you learn how to manage people, you learn how to do cost benefit analyses, you learn how to scope markets and what's a big market and what's a little market, you learn to hire and fire people, right. And the ability to do that on someone else's nickel, in some ways make mistake on someone else's nickel is really an incredible luxury. And it's also an opportunity to expand your network. The best way to start a company I think is to bring people that you know are really incredible people that you can rely on and you can trust and you may not want to take a lot of risk on those people, so to the extent that you know them and you've worked with them or you know other people who know them is really important. So, it isn't always now or never. The third common myth is that homework is for losers. I - the point of view would be, well, you never know everything, I'm just going to go with my gut and I kind of feel as if I'm ready and I'm just going to go do this even though I haven't really done any homework.

And I really disagree with that. Certainly, you can't know everything, when you're starting a new company especially one where you're doing something that no one ever has been able to do before. People will say, well, how do I do market analysis on a market that doesn't really exist? Well, in my opinion when you're going and starting and you're putting your energy in starting a company, you're really making a pretty significant investment just as if when I - when we invest in a company, we're making a very significant investment. And you owe it to yourself to do your homework. You owe it to yourself to go find out what is the competition doing, how big is this market, what are the reasons why it might fail or why it might succeed and really kind of put together the whole landscape of what you're counting on for this to be a successful venture. And if you don't do that, you're kind of cutting yourself short and I mentioned this because it's kind of amazing to me when I meet entrepreneurs and they really haven't done any homework on how big the market size is or you ask them about, well, what is this person - what is this company doing or what is that person doing, have you heard of this or you heard of that and they say no, haven't really done anything that work. It really is not the right way to go about doing this because you're making an investment and you're making an investment in the most valuable thing you have which is your time, your energy and your reputation and you owe it to yourself to do some homework. That isn't to say that you need to know everything and all your information needs to be perfect. You just need to kind of know what you're betting on in order to do that. And the last one is, boy, nothing like this has been tried before and my opinion is that almost every business model has been tried.

It may not have been tried in exactly that business and that incarnation, but every - if you can squint and you can think about, well, what happened, so for instance on Monday at our Partners Meeting where we were talking about subscription commerce, right. And one of the big things, popular things today is these are subscription commerce sites where you sign up for a monthly subscription to some either product or service or what have you and it just comes. And people will say, well is this model working? Well, you never know, it hasn't really been tried before. Well, you go all the way back to the early '70s and there was this thing called Columbia House records and tape where every month they'd send you three new albums and unless you canceled, it would - the album would come or you think about just an analogy, AOL. It's a monthly subscription service that if you didn't cancel, with your credit card it would just be renewed. And the fact that, my belief is that almost every model has been tried, it may not have been exactly tried in that industry. It may be different industries within different periods of time, but they're very instructive as to how corporations view it or how consumers view it and how behavior kind of works. And I always encourage entrepreneurs and I always ask them, well, what's the analogy for this business, what is it most like? Is it like - it's - is it like how Cisco did it or is it like a Federal Express did it or is it like - if it's a - even restaurant analogies, whatever, I always look for analogies and I think it's really a myth that nothing like this has ever been tried before. So if you take a step from there and I just want to share with you some attributes of what I think great entrepreneurs do. In my experience and I talked about this a minute ago, entrepreneurs have a driving passion to change the world and what I don't - lots of times when I will go and think about investing in a company, one of the things I really like to do is understand why an entrepreneur wants to start the company, what's driving them to succeed? And almost - I can almost never get that in a meeting.

It takes a few meetings to do that and I usually go to dinner with the entrepreneur and if I could, I would figure a way to meet their family, I would figure a way to play a sport with them, I'd figure a way to do, just whatever, just to kind of understand what their psyche is. But I almost always end up talking to them about, well, why do you want to do this? And really what I'm looking for is what's driving them. And if they say I want to make a lot of money, that's not - I don't think that's enough to be a driving passion to want to change the world. If it works out and you're lucky enough that a company is really successful, that's terrific and it's going to be financially really lucrative, but that's more the effect and it's really not the cause, right. The cause is that they have a vision, they want to change the world and they want to make the world a better place. And I always spend time trying to understand what is the person's passion and what - what's going to cause them to walk - run through concrete walls in order to make it happen, because - as you will see in a minute, I'm going to talk about willing a company's success, they're going to go and they're going to convince other people to leave their jobs and take - to take salary cuts and really bet their careers and before you know it, you're going to have hundreds of people around the company that are betting on this person and the passion of what the original vision was and it can't be just to make money. That is a - that's a horrible culture that will never survive. It's got to be about, I'm going to change the world and I have this vision about how to make this a better world. The second big - the second attribute of winning entrepreneurs, I think, is the ability to see chaos - see patterns where other people see chaos. I talk a lot about this, about pattern recognition.

I get people coming in and they will say oh, I see this trunk and it's really interesting, it's going to be the best trunk in the world. And someone else comes in and says well it's going to be a foot and I know how we're going to make the best foot there is in the world. Someone else comes in and says well I got a tail and it's going to be the best tail I've ever seen and someone else says I've got a tusk and before you know it, you start seeing that everybody is kind of describing an elephant, right. And part of our job as venture capitalists is to try to put all those pieces together and try to recognize patterns. The best entrepreneurs that I see come in and say well, I see this happening over here, I see this happening over here, I see this happening over here. The logical thing is that now all the pieces are coming together that the world is going to look like this and they see it as clear as day and they feel compelled to go get in front of that market because they see if they don't do it, they're not sure someone else will or they can't stand the thought that someone else is going to get there in front of them. The third is you have to have this passion, you have to have the conviction, but you have to be able to articulate it because when you're starting a company all you have is a power of the idea, right. And if you can't convince other people that it's the right idea - so imagine that you're one person with this fantastic idea and you're going to start a social network and it's just going to be - 900 million people are going to - are going to connect, but if you can't convince anybody else to come help you, how are you ever going to do it, right. And so you've got to be able to have a vision and be able to articulate it to other people so that you can convince them to do it and that they can convince other people to do it and people put money into it and service providers will provide services to it. So being able to articulate is really an important point.

The fourth is willing a company into existence. In the beginning there really - as I said there really isn't anything other than an idea. And the very, the first five hires and the first three or four months, all you have is your belief in what you're doing is right and you have to have the conviction, but you also have to be able to have the fortitude to be able to will by force of will the company exists and if you have any doubt, everybody else will see it in you and the company will never end up forming. And so my advice to you is to do all your homework upfront, but once you commit to do it, if you commit to do it, you're going to do it and there is no path back. That doesn't mean to say that you're going to be stupid and you're going to be foolish, but you've got to will companies into existence. The fifth is I think entrepreneurs are genetically paranoid. Anybody who is not paranoid is going to end up getting eaten, hopefully not literally. The sixth is being able to recognize and support your own weaknesses. Nobody is perfect and the best entrepreneurs I see understand what their areas of weaknesses are and they go hire other people or they team up with other people or they bring in as advisors or board members people that can help them be better and they recognize their own weaknesses. The seventh is soliciting advice but you make your own decision.

So I hear this all the time about well as a board member they will say well what do you want to do? And I said well, I'm going to give you advice, but you're going to be the one who is going to make the decision. And the best entrepreneurs I know, they solicit advice and they listen and they process, but they quickly make a decision. You don't want an entrepreneur that won't solicit advice because that says - then they say, well I know all the answers, I'm not going to ask for any help. But you also don't want one that says, okay everybody give me whatever you think and collectively we're going to make this group decision that and I'm not going to make any decision. I want somebody who is going to listen but at the end of the day make their own decision and be responsible for that decision. And then lastly be able to make decisions with incomplete information and fix the bad ones along the way. I end up giving this advice probably to 90% of the first- time entrepreneurs, which is hey you can't get all the information. By the time you get all the information it's too late and by not making a decision you've made a decision. All I ask is you quickly make decisions and if they're wrong, fix the bad ones quickly, make just - but what you have to do is you have to rapid fire decision making because in an early stage company you don't have the luxury of time. And if you did, you would end up looking like a very large company that has meetings about meetings and it takes two or three years to make a decision.

What young companies have is the ability to kind of rally the troops, do something, do it overnight, make the decision, commit and move on. And if it's a wrong decision, if you hire the wrong person fire that person, that's okay as long as you do it quickly. Don't linger on bad decisions. And then finally sweat the details. I don't know any really good entrepreneur that doesn't sweat the details. And this - almost every great manager, CEO I know also knows the important facts and can tell you they've got the clarity of saying what are the five or 10 really important variables that drive my business? And once I know them, I know the details of those numbers, right. And I always am very wary of a CEO who comes in who really doesn't know any of the details of some of the most important variables and the important KPIs and I will talk a little bit more about that in a second. So that's what I think make great entrepreneurs. The other aspect is once you start a company, you got to have some leadership, right. And not all entrepreneurs are great leaders, but some are.

And the ones that are really good I think are the ones that can clearly articulate a strategy and a purpose. As a company gets bigger an entrepreneur can have less and less direct control over the knobs. They have to be able to work through other people. And as you start developing a larger organization you may have either business units or you might have functional units and you're going to be less - you're going to have your hands less and less on the operation. So what you have to do is you have to create a culture where everybody understands what the big purposes of the main missions and the strategy of the company and why what they're doing is important to achieving that success. So you have to be able to clearly articulate a strategy and a purpose. I think great leaders lead by example. You can't say, okay everybody we're going to go really work really hard and I'm going to go take a three-hour lunch and go take a swim by the pool. Unfortunately it doesn't work that way. Leadership happens by example.

The third is that they recognize that they win because the team wins. Lots of times you will see entrepreneurs and leaders have - many of them have very big egos. And the ones that succeed best are the ones that recognize for me to succeed everyone on the team has to succeed. And you have to be able to share responsibility and share successes because if you can't share responsibility and share successes, you can't share failures and you can't pin bad outcomes on people, right. You have to be able to understand that you got to win and you win as a team and you have to be productive as a team. The fourth is that they never give up. You see this all the time in entrepreneurs' offices, you will see the signs that say never, never ever, ever, ever, ever give up, right. And that's - one of the things that I admire most about entrepreneurs is that they will come up to a stone wall and they will sit there and they will try to bang through the wall, they will try to bang through the wall and some people would walk away and they will go think about it overnight and the next thing you know they walk around the wall, right. You kind of - there are so many reasons why a start-up company should fail versus a company that has a lot of resources, a lot of market share, a lot of customers and the reason they succeed is because somebody has the nugget of an idea and a passion to make it work, they have the people who are dedicated and they adjust along the way, right. I have never in my 27 years in the venture business, I've never seen a business plan that we initially funded on the first round actually get executed exactly the way that it was supposed to be, right.

Almost everybody changes path along the way and they do mid course corrections and it's really important. And then the last is hiring up. Almost great - every great leader you will see will always try to raise the average with the next hire. And I will - we will talk about that in a second. So, I just thought I'd just share with you a couple of great entrepreneurs. The first is John MacFarlane at Sonos and John was at Sun, he ended up starting this company called software.com, he sold it to phone.com and then he started this company called Sonos, which many of you may know is their - they view their mission statement as filling every room in the house with music. And they want to be able to play every song in the world and stream it to every room in the world and have people rediscover the joy of music, right. And they do this with a set of wireless speakers and bridges and they connect to music services, but what John does really, really well is he is incredibly committed to the vision and he would - he was willing to do kind of whatever it takes to fulfill a customer value proposition which is he wants to fill every house in the world with beautiful music and he wants everybody to enjoy it. And he is able to hire some of the best people around the world that just - and a lot of acoustic engineers and design engineers are kind of different kind of people. But when you give him a chance to say, I want to give people the enjoyment and rediscover music, it's really remarkable.

He has hired a group of people that all have worked with him before and he is able to articulate a grand vision and despite having been extremely successful, it all happens because John is at the helm and he makes it work and he leads by example and I just - I think the world of him, but I also love his vision and I'm completely bought into it. Another guy, Reed Hastings that we backed in Netflix originally came to us, I mean, his background was - he was actually in the Peace Corps and then he was in a start-up company that was a spinout out of N.E.T. called Adaptive and then he started a company called Pure Software, which was ultimately sold for quite a bit of money and then he came to us with this idea that he was going to have mail order service for DVD rentals. And we said, god isn't that crazy, why wouldn't people just go to Blockbuster and rent a DVD? And he said well because this is much easier and consumers are really getting ripped off now by all the late fees and we really think we can - consumers would really like to have a few DVDs around the house all the time and we think we can have a logistic system that can get them there and we think it will be a significantly better experience and we think it's better for the consumer and if it's at the expense of Blockbusters, it's going to be at the expense of Blockbuster. And a lot of us thought it was kind of crazy, but every time we pushed on him on well, what about this, why - this won't work because of this model, he had thought about it and he showed us the nine reasons why it would work and he tells us all the people he talked to. And then we would say well, this won't work here because the postal service is going to take too long, he goes no I've thought about this and here are the things to do about this. Well, and then the studios aren't going to give you the DVDs in the appropriate windows, well yeah we've talked to them and here are all... And this guy was so compelling that despite the fact that we thought it was kind of crazy we just felt that this was kind of a guy that we should - we had to invest in and Netflix has turned out to be a pretty good company. And even today Reed is probably recognized as one of the more entrepreneur - models of entrepreneurial leadership. And if you - he has, he talks about something called freedom and responsibilities that you might want to just look up, there is a slide deck you can look up on the Internet that's pretty widely distributed and what he talks about is in the large organization, he wants to give everybody the freedom to do what they think is the right thing to do for the company and he wants to give them the responsibility so that they feel as if they have to own up to it for both the good results and the bad results and Netflix is a remarkably effective company where everybody kind of knows what they're trying to - where they're trying to go.

They all know what they're - what their role is in trying to make that happen and he is a remarkable leader and there was a story that I just heard recently which I thought was interesting where he talks about this freedoms and responsibilities thing. And one of his employee said, hey I think everything you're talking about this freedom and responsibilities thing is BS. And Reed goes why? He goes, well, if you really believe that we should have the freedom, you're going to just give us the responsibility, why do we have vacation days, why do you care, why are you trying to legislate what - how much time I take off as long as I get my work done. And Reed went back and he thought about it and he said you're right. So now they no longer have vacation days. You basically take whatever time you need to take off as long as you get your work done and it turns out that people take less vacation than they would otherwise be entitled. But these are examples of people who started the companies from the get go but have emerged into terrific entrepreneurial leaders. So the next section I want to talk a little bit about is about markets and how you should think about markets. The interesting thing is when I got in the venture business market sizes were measured in tens of millions or low hundreds of millions of dollars and they were mainly U.S., they were mainly data processing oriented back offices. Today they're worldwide in the measure of tens of billions or hundreds of billions of dollars and it's really kind of a remarkable transition.

For instance, there are 5.8 billion mobile devices out in the world. That's more than people who have electricity or clean water. So it's kind of you live in a really great time. And so one of the things is trying to find the right market at the right time and I thought I'd just tell you a few stories of companies that I'm involved with. I got involved with TiVo in the very beginning and it was a couple of guys who wanted it billed kind of a video server in the home. And the more we talked about it I was just coming off the board of a company called Excite which was one of the early Internet search engines. And one of the things that we learned from the Internet was that targeting a personalization, the ability to target and personalize content was really a powerful notion. And so I spent a lot of time talking to them and said why can't we do this for television? Why can't we deliver a personalized television experience so that people don't have to just watch what's broadcast, but they can watch what they want to watch, when they want to watch it. And then they came up with how we were going to do it and low and behold we had to start with the set top box, but more importantly we started with the user experience and TiVo was kind of born. And it was born at a time when I think the Internet started training people that hey personalization is really important and that television was kind of ripe for innovation.

I've got another company I'm involved with called Machinima and Machinima is a broadband content network that sits on top of YouTube and it's targeted mainly to gamers. So in July - sorry, in August we served 2.3 billion videos to about almost 200 million people and it's kind of growing like a weed and it's mainly gaming content. And when I first met them, it was very, it was really very small, but it was right around the time when Call of Duty, Modern Warfare passed the $1 billion. It was the first video game to pass $1 billion revenue. And then Avatar kind of in the same month passed $1 billion. And I looked at the two art forms and I thought hey those are pretty close, I mean could it be that a lot of this stuff and as you - many of you know who are gamers, the graphics are photorealistic and it's kind of hard to tell certain movies from certain games and in fact you go to movies today and you see trailers for games and I can't really tell in the beginning if they're promoting a movie or they're promoting a game. But they started at a time and we invested just on a lark that said hey maybe this might become important and the next thing you know YouTube is pouring hundreds of million dollars to create the largest broadband MSO in the world and our vision is Machinima is to gamers what ESPN is to sports, right. ESPN isn't necessarily just about sports, it's about males, 16 to 34 and that's kind of what Machinima is all about. Bluefin is a spinout of MIT Media Labs and some of the statistics on people who watch television is about 70% of all tablet users have their tablet and about 68% of people who have a smartphone have their second screens sitting in front of them. And people are tweeting away or they're surfing or whatever.

So Bluefin's idea was hey could we take all this information about what people are posting on Twitter and on Facebook and they're writing on blogs and could we somehow correlate that to a full TV feed and if we could parse the TV stream into discrete events and we could somehow associate social response to what was happening on television, wouldn't that be kind of cool in building the large - world's largest real time focus group on the fly. Right now what happens is a TV show will come on and they will do a focus group testing about three weeks later, they will do unaided response rates and three weeks later they will be able to tell you that people like it, whether they like, whether they did not like it. Well with Bluefin and it's really a large data analytics and crunching problem, they're able to tell you almost real time how people are reacting so that you could change your message and there are examples of during the Olympics of how people have changed their creative on network spots based on what reactions are - people are and we think that's kind of an interesting trend and it wouldn't - it really wouldn't be possible without advances in compute technology, without algorithmic advances, without all - everybody posting. But it kind of all came together at the right time and we think it's a pretty interesting idea. And the last one is Electric Imp, which was founded by one of the Apple iPhone engineers and some of the Google software engineers and the notion is they want to create an Internet of things, right. And their whole pitch is now - it's gotten to the point where people really are wearable technology, home technologies, I'm sure you've all heard of Nest, which is the thermostat you can control over the Internet. Well what if you control everything in your home over the Internet, wouldn't that be kind of cool. What if it were lights and door locks and temperature stuff and water and sprinklers and what if you could put it on your dog to know where your dog was and what if you could do it on your elderly grandmother just to make sure she's safe or what have you, wouldn't that be kind of a cool thing. And what they've developed is a platform and a reference design to allow anybody to kind of hook something on to the Internet for a very inexpensive price and then a backend cloud service for connecting these things and monitoring these things either on a white label basis or directly. And that isn't possible, except for the fact that Wi-Fi is pretty much everywhere, compute is really inexpensive and the ability to get miniaturization - I can get basically these computers on the size of SD cards and I can get them really inexpensively, that's kind of a cool thing.

And so the point of this is that lots of times you look for discrete patterns that happen to all come together at the same time where you're able to say what I'm talking about would not have been possible or would not have been interesting until this point in time, and I think the ability to kind of look at a really high level and decide wow, that must mean that there is an opportunity here, is an important aspect to trying to find the right market. So one of the questions I get asked a lot is well, what defines an attractive market? Well, I think the most attractive one is the ability to do something that can't otherwise be done, right. So without what I do, then there would be no market and the ability to kind of create a market is really interesting. And if you have any doubt and you look at the market cap of companies within any particular sector, you will find that about 50% of the market cap typically accrues to the market share leader, right. So it's very profitable to be the - not only the first in the market, but if you're the first you're the market share leader. So the ability to kind of help create a market is quite interesting. The second is something that fundamentally changes the economics of a solution. So by doing it, you can reduce the cost by 10x or you will allow what typically wouldn't be able to have be done, you can now be done. The third is that it's in the path of progress. You don't need to know the market.

If the market exists today and it's being adequately served, you either have to come in with something - I always talk about the general rule of thumb of attacking existing markets, it's got to be about 10x the performance and it could be a maximum of three times the price, but arguably in today's world it's got a - it's got to be something along that lines of a 30x kind of improvement for people to switch because otherwise corporations or people would rather just stick with what they're already using. So being able to look at, well if this happens here and this happens here, I really think that this really isn't the path of progress and this is going to happen. So this notion of something that is in the path of progress and if it already exists, it's on the cover of Time Magazine, chances are it's too late. But if it's something that is controversial but you can argue is in the path of progress that's probably a pretty good thing to take advantage of or take a look at, I should say. And then the last is, what for me defines an attractive market, I want to be able to see how a company can get north of $100 million of revenues, if it works, and ideally multi-hundreds of millions of dollars of revenue. Now, that's from my perspective as a venture capitalist. That isn't true for an individual investor or an angel investor, but for what I do that's what I want. So let's talk now a little bit about investment and taking the money and I referred to this earlier about whether or not to VC or not to VC, right. And the first is to say venture capital isn't for everybody, right. There are positives.

The positives are you get professional help, that's all we do, that's what we get paid to do and hope - are hopefully and arguably we're okay at it. And we have, we provide the help and the expertise. We have a very large network of contacts, both to hire, for partners, for potential distribution arrangements, for all sorts of things. We come in with an unbiased set of eyes and brains. When you sign us up, there is no second agenda. It's not like you take money from a corporation and the corporation has a second agenda about the investment is only one thing. Our motivations are really clear. We are trying to make a great return for our limited partners and we think the best way to do that is by building a very large, long-lasting, market share leading company, right. We are extremely transparent. And the final thing is credibility.

Lots of times when a company gets venture finance, I will do this all the time where I will call up a potential recruit and I will talk to them about all the other great companies that we finance and why we think this is the next one and we're willing to put our reputation and our dollars behind it and that level of credibility often right or wrong is what's necessary to convince a candidate to kind of leave a - an otherwise interesting job. The negatives are dilution. We are very ownership oriented. Our typical ownership in a first round investment is just a little under 25%, right. We are very ownership hungry. It's by no means the cheapest money that you will find. And you will give up a little bit of control. What we don't want to do is, we don't want to invest in something that's a hobby or something that's somebody - that nobody ever wants to get liquidity in and so by signing on to - for venture capital you're kind of buying into that roadmap. We have certain outcome expectations. As I said something that is a - at least at our scale something that could be a $10 million or $15 million or $20 million acquisition price may be very - may be terrific as an angel investment, it just doesn't work for an institutional venture capital firm like ours because we're looking to build very significant holding positions.

And once you go back, once you start there is really no going back. Once we come on and I will talk about this in - right here on the bottom point. It really becomes a marriage, right. We're signing on with you, you're signing on with us and we're going to be in this journey for a long period of time and so when I talk to potential companies that we invest in and I talk to them about going on the board, I really encourage them to do reference checks and I really encourage them to take their time because as much as we are signing on with them, they're signing on with us and it's going to be probably a five, six-year journey we're going to have together. It will be a lot of fun, and we will go through a lot of ups and downs and it will be thrilling and it's exciting, but it's really hard for us to get divorced at the end of the day. So in terms of raising money, I would say just raise kind of generally what you need to get to the next milestone; proof pays. In other words, once you get to that next milestone, it justifies an increase in valuation. And that will minimize your dilution and it's - proof is really important. And I see this all the time because entrepreneurs will come in and they will say well I want to raise $15 million. And I say, well you don't really have that much, what does it take for you to get some initial market feedback? Well, that will take $1.5 million or $2 million.

Well, why not - why don't we do that, you'll suffer less dilution and it's probably a better way to finance the company because I can't write that big a check and take that much risk, but on a smaller check I'd be willing to do that. That kind of leads to the second thing about stay lean and mean. I don't know why it is but companies do better when they don't have that many resources, right. They always talk about necessity is the mother of invention; well it's definitely true. And when companies are really lean, they end up being more efficient and they figure out ways to do it. When there is a big slug of cash in the bank, people get a little bit lazier and if you have a couple of people that aren't really contributing, well we can afford them; we will just leave them on the payroll. That's not the right thing to do. The right thing to do is, if someone isn't working out you should get rid of that person, you should be as lean as possible because smaller teams generally are more efficient than larger teams. And having to - having necessity as the mother of invention is an incredibly powerful force. Companies I have seen that raised too much money end up being a little bit sloppy, they end up being a little bit slower, they end up delaying profitability and I know it doesn't necessarily make logical sense because people say well I will just raise the money and I will leave it here and I won't touch it, and will still be really lean and mean.

My experience is it just doesn't happen that way; it's just not human nature. I would hire after growth. It used to be like in the bubble people would say, well you got to hire in anticipation of growth, that didn't work so well. My experience is that if you grow and you're always just a little bit lean in terms of not having enough people to kind of take advantage of the opportunity, that's a pretty healthy place to be. It's a little bit like having a lab, you want to be just a little bit on the lean side. The fourth is maximize the pie, not just your slice. At the end of the day, if you start a company, any of you can own 100% of it, but it probably won't be that big, I mean, what you want to do is, you want to try to figure a way to make the pie as big as possible so that the slices are really valuable. And then we talked about choosing your investor as a true business partner. So I will talk a little bit for a minute about common misconceptions. The first is that the customers are always right.

That's kind of true, but not always. My experience is that customers don't have any vision. They only have about a 6 to 12 month horizon and lots of times when you're talking to them about something that's never been done, they can't really conceptualize what it is until they see it. There are very few people - one of the reasons entrepreneurs are so great and they're so cool and they're so much fun to hang out with is because they're able to see much farther out and they see order where other people see chaos. Most other people and that means almost every customers they only see 6 months or 12 months ahead. They don't see kind of the bigger vision. And so lots of time people make the mistake of kind of listening to customers. It doesn't mean you shouldn't solicit the input of customers; you should. But you should also recognize that customers aren't always right. Second is hire experience over talent.

I see people that will say 'well, we should hire this person because that person's done that job before' and I would much rather hire an upcoming A than a proven B, right. And lots of times people will go for proven Bs because they've had the check box on the resume. And obviously you'd rather have a proven A, everybody would rather have a proven A. But if it were up to me I always bet on young talent, I always hire unproven As in favor of proven Bs. I hear this a lot, VCs will sell the company from under me. That's just really - I've never had that happen. In almost every occasion where we have ended up selling the company I find myself constantly in the position of encouraging the team to kind of go for it and let's see what we can make it, make at it. And I would say that the - when they're first time entrepreneurs and they get a meaningful amount of money and the ability to kind of take something off the table, they almost always take it. And they'll always say to me, and the conversation will go something like 'hey listen don't get that many swings in the major league, you're at bat, you're in the majors, let's take a shot and see how big we can make it, and if it doesn't work out then we can always go back' and they'll say 'well I understand, but you've a portfolio of companies and you've done it before, this is my only bat, this is my first bat, and this is - landscape changing and life changing for me, and I think I owe to myself, my family and all the employees to do that.' And I usually say 'listen, I support you 100%, I'm just telling you what my position is because at the end of the day if you Mr., Ms. Entrepreneur want to sell the company, I'm not going to stand in your way' I'm going to force them to work when they don't want to do it? I mean, that doesn't really make any sense.

But that's a common fallacy. The fourth is, I hear this a lot from Y Combinator classes, VCs want to kick out the founders the first chance they get. That doesn't really makes sense either. I mean, when I'm investing in a company where there are three people, why would I want to give them the money to build the company and then proceed to want to kick them out. I mean it doesn't make any logical sense. My objective is for them to succeed and if they succeed then I really succeed. Now if they're not going to succeed or they need help in order to succeed, then by all means I'm going to go to them, I'm going to try to convince them that we should hire more people on to the team to help them succeed. But it's - I hear this a little bit more than I'm comfortable with that 'oh, I hear VCs want to just kick out the founders and I want to put in all these protective provisions to prevent the founders from getting kicked out.' I have no interest in seeing any of them leave unless they're not helping the cause and causing the company to succeed. And then lastly, good CEOs do what the board wants. I think I mentioned this earlier.

Good CEOs do what they think - they lead the company and they make their own independent decisions. And I think when a board makes decisions, it's time for a new CEO. So that's just not the case. So the final section and I'm going to try to wrap this up really quickly, is talk about what I'm looking for. What I'm looking for are landscape changing ideas, I'm looking for ginormous markets. I'm looking for people who want to change the world and I don't need a full team when we invest, I just need everybody who's on the team to be really good. I just need a nucleus of excellence. And I'm looking for things that can be great businesses. And so I get asked a lot, well what you do for due diligence? There are four things. One, I look at the value proposition.

So how compelling is the product or service? And I'll do that by doing some customer checks or by anecdotal consumer checks. I'll look at markets. I'll look at rough market size estimations, I'll do a lot of back of the envelope. I'll try to see what are analogous type services or what are analogous type products and how do I figure out kind of how many customers there are, what their market adoption rate's going to be and how much they'll pay. And I look for analogies all over the place that lead me to give me some level of comfort as to how big the market size is. And it doesn't need to be exact. I think markets come in three sizes, small, little and large - I'm sorry, small, medium and large. And I'm looking for large markets. But I need to know about how big the market is and if it's big enough that - that's really what I'm looking for and I always look at analogies. In terms of evaluating people, I always look - I think I mentioned this, I look at what motivates him or her, if the person is very young and they haven't had a lot of experience, I look for some patterns of excellence.

And if there's a lot of patterns that mediocrity, well I tend to stay away from that. I always ask 'what do you think your strengths and weaknesses?' because I want somebody who's really self-aware. And of course I'll call all - a bunch of other people that are on or off their reference list to hear what other people say. And finally I want to predict the business model. I don't - not all businesses today do have a business model, but I want to at least have a thesis on what one could be. And what are the customer economics and who else has done something like this? And I think I talked about that before. I'm going to skip that and go to - just talk about the quick rules and say, my rules are you should pick really big markets and like I said it's either markets or people I'm on the - I'm about 51-49 markets type person. Market leaders get the majority of the rewards. Never compromise on people. My observation is that As hire Bs, Bs hire Cs and once you get Cs in the company they're like cockroaches, you just cannot get them out.

You should definitely do analysis - do the analysis. At the end of the day you got to go with your gut. You can't do analysis paralysis and I see this all the time. What you want to do is enough work to know what kind of decision you're making and then you're going to make a gut decision at the end of the day. And lastly be flexible. There's more than one path to success. So I'm going to finish with five pieces of advice for those prospective entrepreneurs in the audience. One is to think huge. It doesn't make any sense to go after little markets. Your time is too valuable.

The second is once you decide to go, you should move - go and move very quickly. Get more help than you think you need. You can - I know I said hire after growth, but getting help in over-horsepowering is - typically you want a lot of expertise in a start up company because it's hard. Don't focus on dilution; focus on outcome, I think I talked about that. And lastly, learn from others who've come before you. So with that, I apologize for having gone through this all so rapid fire. I'm happy to take any questions in the remaining seven minutes. Yeah? Thanks, Geoff, great talk and very insightful. What's your preferred source of deal flow? We've got a project, we think it fits, how should we best approach you? I mean, the best way - the best entry into any venture capitalist is through a referral, ideally. And if there isn't then you just - feel free to email anybody in the firm and everything will get looked at, right.

Obviously the way - I mean the Valley is a pretty small place and all of us take source of referral as a very - more seriously. The better the source referral, the more seriously something, somebody will take it, but we look at everything. Yeah? Thanks, Geoff. It's an inspirational talk. You mentioned boiling the ocean... Yes. I was wondering in terms of market segment, what do you think is going to be the largest ocean going forward from your point of view? Okay. So the question is what's the largest - boiling the ocean, what's the largest segment of the ocean that's attractive? And I kind of - there was a slide in here, I was going to talk a little bit about what our core investment themes are, but generally - generically speaking platforms is a really interesting place to be, both new platforms. Every time - everyone says there's no more platforms, right and just like I remember when Google was dominating search, everybody said 'there's nothing going to be - its going to be - every internet search is going to be dominated by a search bar.' And then all of a sudden face - MySpace comes along and then Facebook comes along and then Twitter comes along and so forth and people say 'well nothing will over dominate the operating system world because Windows has everything' and then all of a sudden Android and iOS come along. So I still think that there is opportunity for new platforms as mobile, the world goes mobile and mobile devices really become the compute platform, and having so much power in people's hands is really remarkable.

Then you also have applications on top of existing platforms. You can plug into over 3 billion users by connecting to Facebook, YouTube, iOS, Android, LinkedIn, Xbox. I think next generation entertainment is as space that I'm spending a lot of time on. People are viewing entertainment all sorts of different places, on all sorts of different pieces of glass and they have - right now finding content is really difficult. You have to enter credentials in all over the place, it's really hard to - the content is more tied to a device rather than to a person. And you have all this new content coming up, I mean I talked about Machinima, we're investing in that theme, on next generation content networks. Data is huge, I mean people are - we're spewing so much information out there and everybody wants to be able to get real time analysis and be able to crunch the data, to be able to have to be able to look at it on their mobile phone or on their tablet. And then lastly enterprise cloud in mobile, everything that's happening in the consumer is moving to the enterprise and I think that's going to happen over the next 10 years. So those are our four themes. Yeah? Do you have any advice or example on when to pivot, how to pivot and how to let go when you have the baby? So the question is do we have any advice on how to - when to pivot, how to pivot and when you let go of your baby? And pivot is one of the most popular words out there today.

And it basically means something isn't working, but you have some resources or you have a team and you want to apply that to a new area. It's kind of hard to say because you rarely ever get things right on the first shot, but what you're looking for is some validation in that what you're doing has some traction and then you're not pushing a rock up a hill. And so it's a really hard question to answer kind of in the generic, but you kind of know when you feel it. If something starts working, you get a pretty good sense that it's working. But if it's been out there for a while and you're not getting - let's say it's a consumer thing, you're not getting any real engagement and things are just trailing off and you've tried to hold bunch of different hooks to try to get people to use the - to use whatever you're trying to do, then that's probably a pretty good sign. I'd say you kind of know it, when you see it and you shouldn't give up, but you shouldn't bang your head against the wall forever either. Yeah. Excuse me, I just wanted to know that, what kind of skill set do you think is more important for entrepreneur? Because you said that the idea is important, is the main part and how can we come up, what kind of skills that we should work, we should look for in order to come up with ideas? And my next question is a little bit specific. I have engineering background and you said that the proof is important in order to attract investors, so we have to show them something that to so that they trust us. So technical skills can be helpful, but what other skills is also? Okay.

So the question is what kind of background is the best for starting a company and what kind of skill sets? So my observation is that the best - almost all great entrepreneurs I think have a real product mentality. And by product I mean product or service, okay. And the best I find are people who have the technical background, but really understand kind of - can put their heads and be the voice of the customer whether a consumer or it's a - an enterprise. And so I always look for people who are great product people, ideally. So you look for engineers and you look for engineers that aren't just technically skilled, but also like - I know a bunch of great engineers but they have no product sense, right. And that's not great. If you are like that, then marry yourself with someone who has really good product sense. I know a bunch of product people who aren't technical, but they have a really good sense of what could be done if I could just do it this way, they just don't know how to do it. If you are that kind of person, I'd marry yourself with a technical person. But those are the best people that start companies.

They tend not to be the finance people, they tend not to be the manufacturing or operations people, they tend not to be human resources. It tends to be some form of technical or marketing, but the common theme is product. Really heavy product orientation and you want somebody who's really the voice of the customer or the consumer. Please join me in thanking Geoff Yang for his fabulous talk. Thank you.