



Stanford eCorner

Realities of Consumer Internet at Scale

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Venture capitalist John Lilly articulates the realities of having success at scale in the consumer Internet space. He shares illuminating facts on the frequency of success, and the secret sauce of companies that leverage network effects and distribution advantages. Lilly also offers a valuable explanation of the difference between product "virality" and word-of-mouth buzz.



Transcript

So since the beginning of Internet, give or take, the web, 1995 so maybe 17 years ago, how many consumer Internet companies, which is where I focus, do you suppose are on the public markets that are worth than \$1 billion? Do you think it's 50 or 100 or 10 or - anybody have any guesses? 50. 50? 10. It's more than 10 but it's not many more than 10. So the answer is 24. So - but if you really parse this out 24 is not a very big number, 15 years, 24 companies. And so - because, like look - I'll show you my calendar in a second - so I meet about 300 to 400 companies every year and what I'm telling you is that one and a half companies a year between 1995 and now are worth more than a billion dollars in the public markets. That's crazy, because I don't even see most of the company's right, I see some fraction of consumer companies, 350, 400 companies. So here are the 24, it's kind of interesting. I actually don't know what Vistaprint does? Business cards. Who knew? Thank you.

You know we've been really lucky to be involved in some of them. So how many of these do you think are worth more than \$10 billion? Because every firm will tell you they want to invest in multi-billion dollar companies. Everybody's counting. It's not half. 7. That's it. So this list I submit - and so this is the consumer Internet not the - there's other things, the enterprise, which has a number of companies, there's little companies like Apple and others that are pretty big on the hardware side. But this is the seven consumer Internet companies that are \$10 billion or more public market cap independent companies now. So it's worth looking at those and understanding what's special about them and understanding what's similar and what's different. From our point of view everyone except from maybe Priceline and maybe Yahoo! you get serious network effects, serious distribution advantages as you get bigger and bigger in scale.

We tend to be obsessed with things that have baked-in network advantages because it lets you get big quickly and lets you be robust for a long time. eBay, I mean eBay has gone through so many challenges. Yahoo! too but their built in distribution effects have kept them alive for a long time and now they're both in a period of reinvention. So let me give you a brief sum of reality, which is probably the most overused term that I hear. So most people say 'well our product is totally viral.' And what they mean is, their product, people are going to love their product so much they're going to talk about it to their friends. So for us, that's not viral. For us, the specific and actual definition of viral is it's useful for me to get all of you on the system because that makes me want to go turn all of you into users. So, photo sharing is something that wasn't - photo taking on the iPhone, so when you first got your camera, photo taking wasn't viral in any way, it wasn't network effect, you'd take your picture and then it would sit on your hard drive. What Instagram did, what Kevin and Mikey did is they created a system where for me to get value I had to turn all of you guys into Instagram users. That's viral.

And that's a special kind of network characteristic. Anything else is basically word of mouth, maybe network effects. But virility is a really special thing and the thing I like about this definition, which came from Reid, is it's really actionable. It really starts to get you to think. It's like 'oh, I'm using this on a single player mode. I'm thinking about this as a one person product, but

now, how do I think about it if I want to use it with my wife or my dad or my cousin or my classmate?' And that's a really powerful way to unlock on the consumer Internet this idea of network and network spread.