Stanford eCorner

Disrupting the Venture Capital Industry

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Ben Horowitz, a founding partner of Andreessen Horowitz, describes how his venture capital firm went from industry newcomer to a leader in the Silicon Valley ecosystem in just a few years. In conversation with Stanford Engineering Professor Tom Byers, Horowitz says his firm built brand recognition through aggressive marketing and broke into the top tier with an innovative approach to staffing, salary and advisory services.

Transcript

So like one of the things we knew from being entrepreneurs and this is a very, very key point in entrepreneurship is that it is just as much work and just as traumatic to build a company that's trivial and nobody cares about than it is to build like a really significant important thing. It's the same amount of work, so you might as well try to do something important and so that was our - always our thought with the firm. We were like we're going to like - our goal is to be the most important venture capital firm in the world like it's completely megalomaniacal and arrogant and idiotic. But that's like if you don't have that attitude as an entrepreneur like you should not be an entrepreneur. So yeah, we were always going to be the biggest, we were always going to be the best and that was the goal and there was no reason to exist if we weren't going to do that. Now, did we expect to get there that fast? No, of course not, that would be ridiculous. We thought it was going to take much, much longer. But we always thought like if we can get there like a big thing in venture capital is size because, one, for an entrepreneur to know that you've got a firm who is not just going to give you $500,000 for your seed round, but then when you need the next round has still got money like that's actually a big deal. But then in our model, the other thing that was important is in order to build the network we needed to be like one of the bigger more important funds because building the network costs money. And the bigger the fund, the more fees you have, the more money you have.

And so we could direct those fees, we didn't pay the general partners much money. But we pay the - everybody else in the firm and so that was all part of the theory of that... Well, I am trying to think of some questions that might not be asked too often of you - just the success in terms of headcount and funds size is remarkable. What about the conventional VC firms that you admire there must have been a set... Yeah, they are really good firms, yeah. ...that you kept... Yeah. ...in other words the core principles that you brought forward because the brands you built in five years is just it's over the top in terms of impact and - but what - and you have been disruptive but what was the conventional pieces that you kept? Yeah, so we actually - a lot - we spend a lot of time with Andy Rachleff who was on my board and actually teaches here at Stanford often. And he had a bunch of philosophies that were - that we adopted and we still to this day. And he was at Benchmark in...yeah, Benchmark? Yeah, he was from Benchmark.

And one of them was just like - he had done various studies, but somewhere between like 90% and kind of 97% of the returns for like any given year of all the companies that get venture funded is concentrated into like 15 of them. And Peter Thiel talks about that a lot in his book and so forth. But that's a really, I would say, counterintuitive principle and very important. And a lot of the design of the firm was around this that like if you can get into -- make investments in some significant percentage of those top 15 then you're going to be a good fund and if not, you're going to basically lose all your investors' money, that's the easy principle which is kind of why the - all the returns go to like five firms every year like if you study venture capital, there is - when we started, there were, I think, 800 venture capital firms. There's a lot less now. But all the returns went to not only like

five firms every year but the same five firms for 30 years. And the reason is or the reason was that the best entrepreneurs would only take money from the best venture capital firms and the best venture capital firms up until kind of I would say like up until really us, were mainly determined by their results. So what companies had you funded in the past, so it was an awesome business model because it's self-perpetuating like as long as you're at the top, you are very likely to stay at the top. We were able to kind of crack that open by doing something that was really unconventional at the time which is not unconventional at all anymore which was marketing. So we were sort of the first venture capital firm to super aggressively market itself and we had - so we had a unique position and a very aggressive marketing idea and that sort of opened it up to, say, well, like they may have a much longer track record than us but we will tell you exactly, exactly how we think about building a company like everything from like how you hire, how you conduct a lay off, like how you think about capital raising, like everything we're going to lay it all out in great detail and up to that point, the industry was just super opaque like you didn't know it was all like the man behind the curtain which was actually a very good strategy for the people who are winning.

It was just a bad strategy for new firms but new firms tended to just adopt what the old firms were doing. So that was the big breakthrough.