eCorner

Stanford eCorner

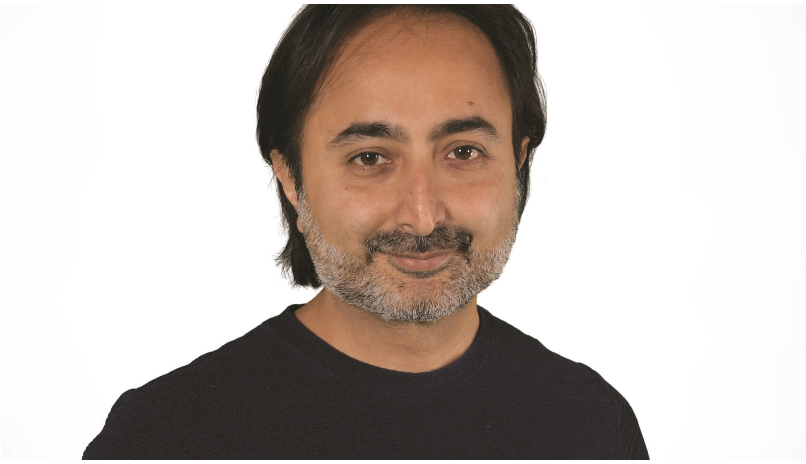
Build, Don't Break [Entire Talk]

Hemant Taneja, *General Catalyst*

17-03-2021

URL: https://ecorner.stanford.edu/videos/build-dont-break-entire-talk/

Hemant Taneja is a managing director at General Catalyst, and has been an early investor in market-leading companies like Digit, Grammarly, Gusto, Livongo, Mindstrong, Samsara, Snap, and Stripe. His 2018 book *Unscaled* articulates the need for accountability, transparency, and explainability in AI technologies, and his 2020 book *UnHealthcare* proposes a new model for impactful healthcare innovation. He is also the author of the influential *Harvard Business Review* article "The Era of 'Move Fast and Break Things' is Over." In this conversation with Stanford professor Tom Byers, Taneja discusses recent technological paradigm shifts, and urges founders and investors to build responsibly and drive positive social change by measuring and valuing impact as much as financial returns.



Transcript

Narrator Who you are defines how you build. 00:00:08,280 - Today, I'm really delighted. 00:00:12,250 I mean, generally delighted that I get to spend this time with Hemant and a few other people online. But every time I get a chance to talk with him, I learn something new. And Hemant, he's the Managing Director at General Catalyst and has been an early investor, and get this, these leading companies: Digit, Grammarly, Gusto, Livongo, Mindstrong, Samsara, Snap and Stripe. Also he's an Author and I recommend all of his publications. One of them in 2018, we're gonna talk a little bit about today is called "Unscaled". And it was regarding the need for accountability and transparency and explainability and AI technologies. Then there is a piece that is heavily influencing me as we work on this ethics and entrepreneurship project. And this is the piece that the Harvard Business Review article in 2019 called the era of move fast and break things is over.

So we'll talk a little bit about that today. But in addition to this, let me just talk about what he does in his spare time, besides writing books and being a world-class venture capitalist. He's Co-founder of the Advanced Energy Economy, an organization focused on transforming energy policy in America. He's the founding board member of the Khan Lab School, nonprofit K-12 school dedicated to classroom innovation. And he sits on the board of fellows right here at Stanford University in the School of Medicine. He also, and this really makes me happy to share that he teaches a terrific computer science course, not this year cause his partner is on sabbatical, but next year. So for the Stanford students listening, get ready for this if you have room in your schedule next year, it's called artificial intelligence, entrepreneurship and society in the 21st century and beyond. So welcome Hemant, how you doing? - Thanks for having me, Tom. 00:02:11,520 - Well, you... 00:02:13,580 And I noticed that you're already on the Q&A, some folks noticed something that I didn't mention.

Five degrees from MIT. Okay smarty pants. What were they in? I'm testing you. Do you remember what you got five degrees in? - Yeah. 00:02:34,230 Well, it was computer science and electrical engineering, mathematics, biology, operations research which was a master's and a master's in computer science. - Okay. 00:02:47,210 I think in a history of 20 years of doing ETL, which is 24 speakers a year or so. That means 500 speakers. You might have more degrees than anybody we've ever had. Tom, it's not a marker intellect, it's a marker of ADHD, which is why I'm a venture capitalist.

(Tom laughs) - Why did you get all degrees? 00:03:07,883 You just enjoyed school so much? - Honestly, my favorite thing to do in undergrad, 00:03:15,520 and I know this sounds a little geeky with looking at the course catalog and just seeing all the things that were available. And MIT like Stanford is a very interdisciplinary place. And I just for the first few years took all the classes that I thought were interesting. And then started deciding what am I gonna graduate in towards the end of my journey there. And then there were a few departments that I could've finished, so I sort of loaded up and tried to finish whatever I could. So, it was not planned, it was more curiosity driven. - Well, then it's sort of perplexed. 00:03:53,800 When you got out in 1999 and around the time of the infamous dot-com period in technology, why did you wanna become a venture capitalist? Why did you become a venture capitalist? - Yeah, it's sort of interesting. 00:04:07,726 I was actually in a doctoral program and my goal was to be a professor. And I mean, you remember of this well, the late 90s, it was this unbelievable time where on campus all these faculty and students were starting to build businesses with the arrival of the internet.

And it just felt like it was a moment in time I wanted to be a part of. And took a couple of my grad school friends who were some of my best friends and we decided, Hey, let's go build a business. And really it was to be a part of that moment. I used to joke, my life's a bit of a greedy algorithm. This is the most interesting thing going on right now, so I'm just gonna go and participate in it. And we just jumped ship. So one day I was an academic and the next day I was trying to figure out what does it mean to actually start a company. - So you made your way to becoming a venture capitalist 00:05:01,200 shortly thereafter? - Yeah, that's right. 00:05:07,370 So I built a business for about 3 1/2, four years, was terrible at it, learned how difficult it is, which frankly helped me get empathy for what it means to be an entrepreneur. And that's always stuck with me cause I struggled so much.

And then we sold that business, which was in the mobile infrastructure arena. And at that point, General Catalyst was just starting and they invited me to be an entrepreneur in residence. So I actually sort of said, Hey, I had my four year gig, made lots of mistakes, I wanna do it again. And I'll go sit with this new firm and try to be an entrepreneur in residence. So I actually never really thought I was gonna be a VC. It just somehow serendipitously happened. - Yeah. 00:05:52,290 And you have been since then. Totally coming out West 10 years ago to start the GC office, which is right downtown, everybody right on University Avenue. When's the last time you were in the office? - Oh boy, last May.

00:06:05,623 - Yeah. 00:06:06,820 - And then our CHRO found out that 00:06:07,813 I'm not supposed to do that, so I've not gone there since. (Hemant laughs) - And well, it's a cool old home. 00:06:16,080 And so folks would come to visit again someday or live here. You should check it out, down on University Avenue, right downtown. But, how has the industry changed over 20 years, from the time you joined to now? I'm talking about the venture capital industry. - I think a lot about that. 00:06:31,350 It has materially changed. So when I think about when I got into business, all of our effort was on how software can fundamentally bring efficiency to our life, right? What's better software for doctors, what's better software for teachers, supply chain managers, we're consumers on the internet. And you fast forward today, we're actually redesigning all the core pillars of society.

We're actually building new healthcare services, we're building new insurance companies, we're building new schools, all digitally powered. So, what does that mean? That means we've gone from efficiency to efficacy in terms of the value proposition of the companies that we're building. The second thing is we've gone from being a technology vendor to actually redesigning these core services in society. So if technology was 1% of the budget that we were serving for these markets 20 years ago, we're going after the entire 100% of the budget. What does that mean? Well, the billion dollar used to be amazing in the early 2000s, and now you're actually seeing 100 billion dollar companies being built. So everything has changed in terms of the size and scope of the ideas, and therefore, the responsibility that we have in how we manifest those ideas. - Well, I'm looking forward to diving deeper into that. 00:07:55,280 Is there one story of one of your portfolio companies or companies you've hand in investing in, or being on their board and nurturing them that illustrate that? Would Stripe be that, for example? - Yeah, I mean, I think the one I would give you 00:08:13,040 is actually, maybe cause I'm spending so much time in healthcare right now, it'd be Livongo. We're building... Livongo is not part of Teladoc.

And we can go into that story later, but we're actually building a service that helps 32 million consumers in the United States that have diabetes and other comorbidities. We essentially help them manage their health conditions and live normally. That is different from giving them an app that they could use to collect data and then go see their doctor and get care. So it's sort of a fundamentally different mindset of how we approach the problems now. - Yeah. 00:08:49,680 Well, I wanna talk about Livongo if we don't come back to that, cause it was a heck of a story over the last year and you a ringside seat from my understanding. And still involved in the company. Save it, we'll come back. But you know what, I'm gonna get ahead of what is very typical when we have a venture capitalist in this series over the years. And that is, what about students who are considering a career in it? And can you give some advice to that? - Yeah.

00:09:25,410 Look, it's a really interesting way to spend time. And you can think about this... First of all, why do it? You can think about it as it's a career for going and doing financial transactions and deals, or you can think about it as it's a great vehicle for creating impact in the world and society that you care about, and sort of focusing on enabling entrepreneurs that are working on those kinds of problems. So like, is this sort of a serendipitous, you're selling money not to sound crass or is this sort of a vehicle for intentionally going and creating change in the world? So, I would just say, given the evolution of our role as a technology diaspora, and we're trying to do in this digital transformation, intentionality matters. So go in it for the right reason, I suppose is my first comment. The second is, it is a very competitive industry because so much of... And you see this in the stock market today, technology stocks are highly overvalued and everything else is highly undervalued, generally speaking. It's because so much value is occurring to technology led businesses. And so a lot of capital is coming in, which means capital gets further commoditized. So you have to think about what are you going to develop as your core skills so that the entrepreneurs wanna work with you.

And I generally believe having gone and done a real work building companies gives you empathy for the problem and entrepreneurship. And so I think that's one piece of advice. And the second again is, become an expert at something. So if you are gonna get into it, get into it with a point of view. And I can say this from my personal experience, it took me a long time to figure out how to do this. And I failed a lot, and so you do need to have patience and perseverance if you are gonna get into this. That's a very important trait because you can't really learn... There's a lot to learn to get this right. - Well, thanks for sharing your thoughts on that. 00:11:33,050 Let's go back to Livongo because this is one of the sectors you've been investing in.

In fact, a typical Hemant style, you wrote a book called "UnHealthcare: A Manifesto for Health Assurance". So first of all, I wanna know what you mean by health assurance. That's a cool term, but I love that. But then, would you tell the story of Livongo and Teladoc please? - Yeah. 00:11:57,170 So I'll take this in the reverse order because Livongo lead to the creation of the health assurance thesis. So there's a phenomenal entrepreneur from Chicago, Glen Tullman. And he does... This is 2012, I'm just gonna tell you a little story of how the company came about. He was gonna retire from it previous company which was a public company and essentially invest out of his family office. So I invited him to the valley, and I set up eight, I think it was eight or nine speed dating meetings with a bunch of technology founders doing healthcare in my office, in Palo Alto.

And at the end of the day, we went to dinner and Glenn in his typical very polite Midwesterner style said, "Hemant, terrific founders, but I got to tell you, none of these companies are gonna work." And I actually said, "Exactly right." And the reason is because these companies are technology first in their culture and they actually don't understand that healthcare is not a free market and don't have empathy for the problem as well, cause these are folks that have really not been in the healthcare space. And the reason I did that is, I was basically making the pitch to him, don't retire, let's team up because we can constantly build something that's gonna be at the intersection of technology and healthcare, a true partnership. And that is what it's gonna take if we really wanna transform the healthcare space. And then we drew up on a white board, what segment we're gonna go after. We decided on diabetes cause it was personal to him. His son had diabetes and others. And so he has sort of seen the pain for his son. And we from first principles decided, the goal there is going to be two-fold. We wanna transform the consumer experience, cause we think about the life of the diabetic. It used to be you're checking your blood glucose every day, you're writing the data points, you're constantly thinking about it in the background.

And then you go see your PCP four times a year with that data to see how you're doing well. By the way, the reality is, if you were okay that day to go see your PCP, you were probably doing that well that day. In the middle of those two visits, you might've gone to the ER because of some seizure, cause it's a real time... Needs to be a real-time managed as opposed to being checked on four times a year. So we decided how about we give consumers an experience where they can disengage from the disease, not thinking about it all the time. And if something was trending wrong, we will be monitoring in the cloud and we'll call them, so they can have their peace of mind. So that was first, which is transforming the consumer experience. The second was, we did an actuary analysis and diabetes, consumers with diabetes and other conditions cost the healthcare system about $350 billion. And we said, we're gonna take $100 billion out of this market by keeping people healthier, by assuring their health. So our healthcare thesis essentially was about, how we transformed the consumer experience to make it more preemptive, but with a real commitment to shrinking the size of this market, which is very anticapitalistic.

When you mentioned Stripe earlier, Stripe's mission is to increase the GDP of the internet. The mission in our healthcare work is to actually reduce the GDP of healthcare. Cause this is a drain on society and wanted to reduce the cost so folks have resources for other things. So, that's how we started building the company. And honestly, taking that point of view and putting the consumer in the middle, we build something that grew as fast as any of the other businesses. We started in 2013, we ended up going public in 2019. And then last year we decided to combine Livongo with Teladoc in an $18 1/2 billion merger. The reason being, we wanted to take the two winning platforms, put them together and build a modern virtual health system that could truly transform as a platform, as opposed to these two companies competing and killing each other. So that's the brief story of Livongo. - Well, it's gonna be fun to track Teladoc 00:16:03,320 cause that is the public company, correct? - Absolutely.

00:16:08,260 - And it certainly seems it has unlimited potential. 00:16:10,260 And will be one of those companies you were talking about earlier. - Absolutely. 00:16:15,420 We're long the run way ahead of it. - Yeah, wow. 00:16:20,550 But, I'd like to talk about the things of your course that I mentioned that you're teaching artificial intelligence, entrepreneurship in society. I remember when you were thinking about doing that. And I came by and we talked about, where would be a good place for it. And it turns out, I think CS is a great department. And who's your partner teaching it? Surya Ganguli.

- Yeah, yeah. 00:16:41,920 And I've just heard amazing things. When will you do it again? In the fall? - Probably in the fall, yeah. 00:16:46,830 - All right, awesome. 00:16:51,021 Awesome then, but, that seems to be an investment thesis though of your firm. So... And you wrote the book "Unscaled" you touched on earlier, but anything you wanna share about AI technologies? - Yeah. 00:17:09,050 So, I think the observation that we started to make in the early part of last decade, was boy, we're going from those companies that are building software to make stakeholders more efficient to building new health systems and new education systems and new neobanks and whatnot, right? And why was that happening? And the reason that was happening was because by having platforms like Facebook, Amazon web services, iPhone, we had essentially started to have a way to organize content, community, commerce, now care online. And the act of doing that, essentially became these closed loop product development exercises cause you could rent all aspects of a scale that you needed. You could rent computing, you can rent manufacturing, distribution, consumer access.

And so it all became about mass personalization. So if in the 20th century we had scaled all of our systems, corporations, banks, power plants, hospitals, we were now starting to go from that mass production and mass scaling to mass personalization. So, managing your diabetes or teaching you in a personalized way on Khan Academy, or giving you your own kind of a financial management surface online. So that's the trend that started to happen. Why was that possible? It was because we could have an implicit understanding of the consumer and their needs and have these product development loops. Well, guess what? That is, you went from, if you remember big data to machine learning to AI, over the last 15 years. You started building this deep intelligence around people. And the thing we started observing as well, those product development tactics were okay when you were building games and you were trying to influence people's engagement in games. But when you start doing that around healthcare, somebodies health, you can't to your point earlier, move fast and break things. If you're teaching somebody, you can't just experiment with different features to see will they learn better or not.

It's actually, it's somebody's educational journey. You can't play with that. And so how do you do that responsibly? That is what we started thinking about in the context of AI. I think AI is not a thing by itself to go invest in a lot of companies and just like mobile isn't a thing. But how you use AI and how are you accountable, transparent and explainable in your approaches became a core focus for us cause that's what it was gonna take to build responsible companies and that is what led us to writing that book and sort of putting our frameworks out there around it. - You've certainly inspired me as you well know. 00:20:02,844 I've told you this a few times now in our work at the center, the STVP Center, that puts on this series to rethink what we mean when we say entrepreneurship and innovation. And we have... This center puts on this series, it also is the home of Steve Blank and all his lean startup courses and movement. And to a person across our 24 faculty, full-time and part-time faculty, agree with you.

And whether we had stand up new courses that are specifically about ethics and entrepreneurship, or about responsible tech, it's embedded now in every other course, including this one. I mean, this is a course as you know, but it happens to be provided free. So, it's really great to have you because in way you're sort of a godparent to it all, with that piece you did in 2019, the era of move fast and break things is over. We all know that to be the theme of Facebook in its first 10 or so years. Did anybody Facebook call you about that title? - No, no, no. 00:21:08,093 Listen. It's not like they don't see it. The thing that's interesting is, Facebook is a very profound company, it organized society and community online. It's the unintended consequences. They did not know what they were getting into.

And by the way, this happened to us 150 years ago. Like if we were staring at the first internal combustion engine today, and somebody told us, "Hey, this is gonna transform society, but it's gonna cause climate change." How would we have used that differently? It's the same thing with the use of AI in trying to garner people's attention and building products to facilitate that it led to... There's lots now been said about that I don't need to go into it. But that was just an unintended consequence. And so to me, learning from that to say, how do you build companies now when the scalability of these companies is very fast cause you've got Moore's law and Metcalfe's law working behind these companies. And you can go and touch hundreds of millions of people in a couple of years. Well, you better understand the unintended consequences or they become untenable very very fast. To me, that's the big learning there, as opposed to thinking that there were bad intentions. None of these founders that we may start with those bad intentions. You just, you lead into it by a series of decisions that you make along the way.

- Well, as you saw last year, 00:22:36,700 you were so kind to also come to a conference we put together with University of St. Thomas and Duke university. And you saw that educators have gotten the message. And it's been emphasized, I'm not just blowing Stanford's horn, but it's it really across MIT, and all our peers, all the full spectrum of colleges are now emphasizing. There's a... Entrepreneurship and innovation are very powerful tools I know you agree on that. You've dedicated your life to that, to combine with these technology paradigm shifts. But, the only kind we're doing is principle, ethics-based, values-based, responsible technology innovation, all that and it's... They've become a little bit of buzzwords, but that's okay. But at least it's in the conversation.

So in the piece for Harvard Business Review, you said there are eight questions that folks should ask. And I think you were speaking even to your VC community with that very directly saying, these are the kinds of questions, more or less saying, look, this is what we're asking. Can you pick a couple of those eight cause I do encourage everybody to go read that HBR piece, it's free on their site. But what are those two... Well, how about this? When you wrote it probably three years ago, which two seem even more important today? - I can say 00:24:10,830 you can bucket those questions into two things: mindset and mechanisms. And the mindset of the stakeholders that are working on the company, and that includes the founders, the product development team, the investors, everybody are they thinking enough about the systemic change they're about to go create? Do they really understand all the stakeholders that are involved, that they touch? And not sort of immediately, but second order and third order effects of as well their business. So that just brings intentionality to the whole body work. And one example of a mechanism is, are you looking for the unintended consequences that might be emerging from your innovation? So this goes back to what I have called algorithmic canaries. Are you measuring the second and third row effects of your products on society? Because every time the challenge is around, how do you make the right short-term decisions for your business that are fundamentally aligned with the longterm interests of society? So I think having that bigger picture and having that kind of a product development mindset probably are two important ones that you have to think about. - Yeah, well, there was also one of those eight 00:25:35,030 that in 2018, you had probably no idea just how important it was gonna become now.

Because it was important then, it just got a lot more attention, and that is DEI. - Absolutely. 00:25:48,900 - Those statistics in 2018 were pretty horrible. 00:25:51,450 And so I encourage everybody to go have a look at that. But you were really ahead of the game on that too, calling out the industry. - It's a great point 00:26:00,030 because one of the unintended consequences always is around equity. And are you really building for society as a whole, or are you empowering some stakeholders and leaving others behind? Listen, that happened with the internet, right? If you think about how our rural education and healthcare have suffered. Digitalization benefited the urban areas more than rural. This is something that we have to worry about with biology. I'm sort of using this notion for biological divide.

Well, if CRISPR can help us become an NBA players or MBA candidates for our kids, is it gonna be an affordability issue? And does it cause equity issues? So just constantly thinking about, are we taking care of all the stakeholders with these innovations is a responsibility we can no longer ignore as the technology diaspora? - Well, let's get to Q&A. 00:26:57,483 How about that? Let's trust the upvoting system. We've got one here at the top. How about taking that one? And healthcare ventures like Livongo, when other sectors have significant gatekeeping, licensing requirements, regulation, stuff like that, how do you approach introducing novel business models, which is a customer first model that may not easily be accepted in that existing systems? - It is such a great question. 00:27:29,450 And the business models that are in these industries have a lot to do with, where they end up. So advertising is a misaligned business model. Who pays and who benefits are two different stakeholders. Healthcare is even worse; who pays, who benefits, who decides are different stakeholders often. So one of the things we have always thought about a lot is where are those leverage points in the system where there's alignment of those stakeholders? So when we started Livongo for example, we went to the self-insured employers cause they were taking their own risk and we could go to them and say, here's the clinical ROI, here's the improvement in lifestyle of your employees, and here's the financial savings. So if you make that decision, you benefit across the board in using the service.

And so, I think the key is to find these leverage points, where there is alignment for even if it's a small sliver of the overall market, demonstrate success. And if you have shown economic, as well as in this case, clinical benefits, others will follow. And it's exactly what happened there. And that has become a little bit of a playbook in this industry cause I meet lots of companies out there, Livongo for X, where X is a persona, if Livongo was serving for diabetics. And I think just that leverage point identification is really really important. - Thank you. 00:28:56,050 Let's do... We'll took a look here, we got one up voted here. When and why should a startup receive VC funding? Yeah, let's get the basics. What do you think is the most misunderstood...

What do think is most misunderstood regarding how the public and early stage entrepreneur. Whoop! It's jumping around here. Are entrepreneurs perceived the role and relationship VCs have in their investments? I'd love to hear your philosophies about that. - Yeah. 00:29:29,720 Look, I mean I can tell you when I raised capital for my own company I was 23 years old and it was very intimidating cause here's these folks that show up and they've got millions of dollars and that number was just daunting to even think about. And you start to immediately think about this subservient relationship to them. And that's clearly not the model that leads to success. I think the thing I've learned over the years is, the relationship, and I'm speaking about early stage, of an early stage investor with their founders truly has to be a partnership where they're not investing with a mindset of judging, they're investing with the mindset of building. When a company is really raw, it's actually not about governance. (mumbles) You can have more meetings, but what governance is there to do? Cause there's problems everywhere.

Everything has to be figured out in the early days. So the mindset has to be, what are the key decisions that need to be made? How do we help you make them? how do we help eliminate failure modes? So it really needs to be a builder's mindset early on. And if I'm starting a company, if I'm somebody in your audience doing that, I would really be screening for that. I would really be looking for exactly how you would work with the capital investor. And if you're not gonna get that, then you want somebody passive. So you can decouple capital from advice and go seek advisors in the market that maybe can help you build a business. So it's gotta be one of those as opposed to necessarily adding too much governance tax in the early days. - Well, sort of keeping on this venture thing, 00:31:10,840 which I see we've got one pretty... Why don't you take that? Why don't you say, this should be the top one there. - How do you differentiate your venture capital firm 00:31:20,060 from others? Do you have any thoughts on the future of venture capital and any trends it might be gravitating towards? Yeah.

It's a good question. The secret in our business is, everybody' is selling money which is the ultimate commodity. So I think the differentiation does have to go back to this idea of, are you coming in to be a long-term partner and a company builder or not? Our framing for how we're different is, we very much have a makers mentality. We very much have this mindset of, Hey, let's help you build enduring businesses. Our mission is actually to invest in powerful positive change that endures. And the general view is, let's not look for exit strategies, let's look for endurance strategies. We want to partner with folks that want their companies to be their life's work, and we wanna be on that journey. That means we wanna be a capital provider all the way from beginning to help businesses endure through the public markets. We wanna provide governance to the different phases, again, from being just sort of co-creators and builders in the beginning to what does it take to run a public company with good governance and sort of toggle that with the right phasing. And it's all about that lifecycle relationship.

So that's how we think about this. I would say there are a few great firms that have that kind of a mindset towards building enduring companies in the Valley, we're not alone. And it comes from also being intentional about capital we have aggregated which is from long-term investors. They want us to do that. So every stakeholders aligned from the standpoint of building enduring companies. - Thanks for that. 00:33:07,500 That's... We have more. Here's one. You need to believe that technology will become more regular.

You seem to believe. I'ma try my glasses. I believe that technology is gonna become more regulated Do you think this will lead to lower VC returns in general? What are the other areas that have high potential think internet 90s, early 2000s that we've been talking about, but are not as regulated. - Yeah. 00:33:34,246 I look... The role of technology companies is changing. I'm gonna keep going back to this from building free market efficiency software to actually building core services, a lot of them are regulated. Stripe isn't a regulated business, right? It's a very regulated business, but they're obviously building a phenomenal platform for commerce and financial technology and financial products that's arguably the best private company out there today. And Livongo was regulated, it was taking care of people's lives. Robin Hood is regulated.

So I actually think most innovation in this phase as we're reorganizing societies at the intersection of technology, capital and policy, and sort of great systemic thinkers that have deep regard for the spirit of why the policies were what they were and help evolve that towards these new consumer experiences where some of the biggest ideas lie, cause those markets are very big. So we're actually not afraid of going into regulated markets. We're building... we're involved in a phenomenal defense contractor, highly regulated space, they're doing amazing things. I mean industry after industry, I think we have figured out how to build businesses at that intersection. - How about a little bit of a right turn 00:35:06,290 or 90 degree turn. One of the things then used nowadays or specs. - Yeah. 00:35:14,190 And they sort of just burst onto the scene. So, I'm picking this question because I teach a course starting in two or three weeks with Trevor Lloyd on entrepreneurial finance, it's a full course for the quarter.

What do I need to know about SPACs? How do you feel about them? - Dear Tom, you probably don't know this, 00:35:35,757 but I raised a public vehicle as well. And it's actually a different kind of a security and we call it SAIL, it stands for stakeholder aligned initial listing. So here's a model around SPACs, model around SPACs is you go to public market investors as somebody who's raising a SPAC, you essentially convince them you've got a thesis. You're gonna go find a private company and bring it to the public markets and you will take what I call a broker's fee for getting that deal done. And that's obviously dilutive to the company. And for public market investors, it's a great way to get early access to good public companies. That'd be the idea. Okay, good public companies have many choices, they can go public on their own as well. Anyways. So what happens generally is because in my opinion, there's an economic impact of the startups, generally companies that aren't as public already are the ones that are choosing to go the SPAC route and accessing public markets.

So if you look at how many SPACs have been raised, it is an incredible amount of money that has gone into those vehicles. And I'm pretty sure there aren't that many very good companies that are gonna choose that route. So one thing is, I think there's an adverse selection problem that SPACs have to deal with. So imagine taking something out of the peak of the market today, and you get your 20% promote as the SPAC enabler, but then the market collapses, you still got paid, but the investors actually lost money. There's a very likely chance that could happen to a lot of companies. So the security we created, the sale, actually does away with the promote. The idea is to not get paid anything upfront and take all your fee structure, almost like a carried interest in terms of how public markets, in terms of how you stock appreciates in the public market from there. So that's a more aligned structure for everybody. And so we're trying to encourage the market to think about it that way. And in that case, if you can actually bring great operating expertise to these companies, perhaps the really good companies also choose to go public that way.

And that's an experimental journey we're on. But I definitely can tell you, the volume of SPAC activity is crazy right now, it's mind boggling. - Well, I'm gonna give you the opportunity 00:38:14,240 to sort of sort through these and see if there's one you'd like to answer because we've got a lot of them and we're coming up on the end of our time together. So let's-- - Yeah, so here's the question. 00:38:27,380 How should a founder who had spent a lot of time on a problem dealing with the rational advice from a hands-on VC in the early stages when it's contradicting the founders gut. I think this is the... I chose that question because it gets to the heart of the problem of, Hey, we're coming to help you build. But I think the key point is we're not coming here to run your company. And so one of the things that I always talk about when I meet founders in terms of our own approach, the approach has to be adaptive. And if our time is not useful, we won't apply it.

If our time is useful, we have all the time in the world to be helpful. And I think as a good founder, you ultimately have to listen to your own gut. As as many patterns as we have seen, all the great companies have their unique trajectories. And so, I think you have to listen to your venture capitalist advice, assuming they're well-informed and they're self-aware to only give advice when they're well-informed. I should caveat by saying that. But in the end you have to make the call. I'm actually very afraid if a founder changes their opinion, because of something I said, and I wanna make sure it's for the right reasons. So in the end, you have to trust your own judgment after listening with first principles. - Thanks. 00:39:58,230 How about this one? What advice would you give to minority and international students currently in college? - Yeah.

00:40:06,450 It's a great question. I think twofold. One is, I do believe, and maybe I'm an optimist, but I think many firms are taking this issue very seriously around creating a more equitable environment for entrepreneurship. So that's one, which is, start to understand where teams and cultures are developing and spend time there. And you can see early signs of how these teams are evolving in different firms. The other thing I would say is the opportunity is very global now. And if you are gonna think about starting a business, think back to where you're from. This is about the international part of the comment, because there are great ideas to execute and the ability to execute everywhere now. I think the pandemic was an accelerant, but more importantly, ` as everything is going digital, all countries, societies are getting more sophisticated by using technology. So the number of ideas is just phenomenal.

So you will have great empathy for problems back there. And think about applying that empathy to resolving them, as opposed to necessarily thinking about what might be interesting and hot in the Valley. That'd be my sort of other piece of advice there. - Well, since you are a part-time professor, 00:41:47,040 which I hope someday you are a full-time professor, and we're lucky enough to have your talent at Stanford when you hang up your VC hat. But is there something that you wanted to share today that we didn't get to either with my questions or the student questions? Because I've got one more for you. I'm gonna take advantage of that in a moment. But I just wanted to double-check. - Yeah, look, I said 00:42:14,890 three or four years ago, five years ago that we're in this 30 year cycle. And what is 30 or 40, I don't know, but the duration is long. And that applies to probably the rest of my career, and applies to a huge part of everybody's career that's listening as well.

We're in this phenomenal time. And I really do think we're all gonna look back as the builders and innovators, which is a huge part of the community at Stanford, and feel like our legacy is part of the society that exists sort of on the other side of the cycle. This digital transformation is once in a hundred years. And so we should all feel very fortunate that we are actually living in such a fertile time in terms of what can be done with our skills, I would say, as innovators, entrepreneurs, investors in technology. And we should also feel there's a great amount of responsibility. And I think that comes, folks that are at Stanford, the fact that there's so much being taught around responsible innovation, just learning from that and bringing that to bear at all levels in these companies, if we're going in prepared with that mindset, then those engineering decisions that manifests symptoms themselves at scale will be the right ones. And we'll build these products that are good for society. - And it's truly global. 00:43:52,717 I wanna combine that. My question for you, you just answered which is we've got one piece of advice for students.

These opportunities are global like never before. I mean, it's the best of times and worst of times. We've got these existential crises going on and all these shocks last year, everywhere you turned has provided a reminder to us in our wall. You would normally be at Stanford over NVIDIA Auditorium. Right outside is where our center is. The STVP with all the stuff on. You've been by there. And there's a big motto on the wall, the bigger the problem, the bigger the opportunity. And so we have that, great. Now, we have this, just this awakening in all these different dimensions by this generation of students.

I'm saying, this is not just the Stanford students this... Yesterday I was teaching students in the UAE. And then last week I was teaching students in Saudi Arabia. And it's just remarkable how flat the world really is, to borrow that old term, it really is flat. And it just got flatter over the last year, but that was coming anyway, as you said, it was an accelerant. But I've really liked the optimism I hear about folks wanting to go solve these existential crises, but with entrepreneurship and innovation as the wind in their back. As long as it's principle responsible, all of the stuff you taught me. You are my spiritual guru on that project, I don't know if you know that. Any last words you wanna share? - Look, I'll just say one last statement 00:45:39,753 that perhaps summarizes all this, which is, I think we all have to realize this period of innovation there's a false choice between impact and returns. It used to be, you can invest in impact, we can invest for a financial return.

I don't think that's gonna be the case for this next phase. I think the best businesses and the most impactful innovation is gonna be at the intersection of impact and return. And so, might as well go at those big problems, Tom, as you're describing, I think that's where the opportunity lies. That's what the world needs. (upbeat music)..