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Breaking the Venture Capital Mold [Entire Talk]

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Charles Hudson is the founder and managing partner of Precursor Ventures, an early stage venture capital firm focused on investing in the first institutional round of investment for the most promising software and hardware companies. Under his leadership, Precursor Ventures has raised four funds and has over $175 million under management. He has invested in 250 companies and supported more than 400 founders, including the teams behind Clearco, Juniper Square, The Athletic, Incredible Health, Carrot, and Pair Eyewear. In this conversation with Stanford adjunct lecturer Ravi Belani, Hudson discusses his views on the structural inequities in the venture capital industry and how he thinks people in the industry can work to create more access to funding for founders who don’t fit the traditional mold.

Transcript

Announcer Who you are 00:00:04,056 defines how you build. (gentle electronic music) - Welcome, Stanford and YouTube communities, 00:00:10,920 to the Entrepreneurial Thought Leaders seminar at Stanford University. I am Ravi Belani, a lecturer in the Management Science and Engineering Department at Stanford, and the director of Alchemist, an accelerator for enterprise startups. The Entrepreneurial Thought Leaders series is brought to you by BASES, the Business Association of Stanford Entrepreneurial Students, and STVP, the Stanford Engineering Entrepreneurship Center. Today, we are so lucky to have Charles Hudson here in person today at ETL. Charles is the founder and managing partner of Precursor Ventures. How many people have heard of Precursor Ventures, by show of hands? Okay, well, you all, the others will know it by the end of today. Precursor Ventures is an early-stage venture capital firm based in San Francisco, focused on investing in the first institutional round of investment for the most promising software and hardware companies. Under his leadership, Precursor Ventures has raised four funds and has over $175 million under management. Charles has invested in 250 companies and supported more than 400 founders, including the teams behind Clearco, Juniper Square, The Athletic, Incredible Health, Carrot, Pair Eyewear, and the list goes on and on.

Prior to founding Precursor Ventures, Charles was a partner at Uncork Capital, a seed-stage investor in internet mobile startups, and the co-founder and CEO of Bionic Panda Games, an Android-focused mobile games startup. Charles hails from Michigan, outside of Detroit, and he has prior work experience, besides venture, at Serious Business, Gaia Interactive, Google and IronPort Systems. But he was in your shoes. So Charles graduated from Stanford in Class of 2000. Came from Michigan. Class of 2000 at Stanford. Got a bachelor's in economics, Portuguese and Spanish. Was that an individually designed major? - No, it's two majors. (laughs) 00:02:02,070 - Two majors. 00:02:08,760 So he kicked off his career at In-Q-Tel, which is the CIA's venture capital arm, and then he got his MBA at the Stanford Business School.

So he's a triple degree holder from Stanford, and he now teaches, also, at the business school. He teaches entrepreneurship at Stanford as well. I don't know if we've ever had somebody who started their career post-Stanford in venture and is still in venture 22 years later. And so it is so fantastic to have Charles here. So please welcome Charles to the Entrepreneurial Thought Leaders seminar. (audience applauds) So Charles, before I dive in, I wanted to give you the floor, if you wanna introduce Precursor or any message that you wanna relay to the Stanford students and the ETL community. - First, it's an honor to be here. 00:02:51,046 I've always dreamed of doing one of. I never told you this, Ravi, I've always dreamed of doing ETL. - Hey! 00:02:55,080 - 'Cause there's so many famous folks 00:02:56,550 who have come through and sat in this seat.

So it's real honor to be here. I thought I would just tell you quickly a little bit about the reason I started Precursor, if that's all right. Ravi That's great. 00:03:05,100 - So I worked at another seed-stage fund 00:03:08,550 called Uncork with my old partner Jeff. We invested in a ton of really interesting companies, Postmates, Poshmark, a bunch of companies you've heard of. And one thing I noticed was, and this was 10 years ago, venture capital was a pretty good deal for you if you went to Stanford or Harvard, if you were coming out of YC, if you were spinning out of whatever the hot company was at the moment or you were a repeat founder, but there were so many founders that I met who didn't really fit that mold, who just had a hard time raising money. And I started looking at a lot of the companies in our portfolio that had done super well, Shippo and LaunchDarkly and some really great names. And the founders didn't really fit that profile, and I noticed that they had a really hard time getting access to capital. And I said, "Well, what if you had a fund "that instead of focusing on what's the easy thing, "to do, which was the kind of consensus pool "of people, looked outside of that pool "and said, 'We're gonna try to find great people who, "'for whatever reason, are not connected '"to those networks and that ecosystem'?" And we can talk about this later, it turned out that was not a very popular idea when it came to pitching that fund to the people who give money to venture capitalists. But that was sorta the core insight of leaving to start Precursor, and I'm happy to go into that in more detail.

But it's really important to me to find ways to bring new people into ecosystems, and that's a lot of what we do at Precursor, both in the way we've built our own team and the way we think about finding founders to fund. - And did you always have that desire? 00:04:34,350 So I just wanna dovetail off of this. When you were at Stanford, when you were in the students' seats right now, your first job was in venture. Did you come into Stanford or did you have? When was the moment when you knew that I wanna do venture capital? - I literally didn't know 00:04:52,800 what venture capital was when I was on campus 20-some-odd, almost 25 (laughs) years ago when I got here. I didn't know what venture capital was. The whole reason I ended up as a venture capitalist, I'll tell you the brief version. I interned at an internet company from Web 1.0 that I'd be surprised if anybody here, other than you, has ever heard of. And I got that internship because somebody had posted a flyer, and I took the flyer off and emailed the person. And when I was at that internship, I ended up meeting a woman whose husband was a venture capitalist. And I was trying to figure out what to do my senior year.

I was like, well, I could do investment banking or I could do consulting or I could work for this accelerator. And she said, "Hey, my husband runs "this venture capital fund for the CIA. "He needs some help." So I immediately went home and went on Google and said like what is a venture capitalist and what do they do? And thought the work sounded interesting. But the one throughline is when I was in high school, I worked for a old-school stock brokerage. And the deal was I worked there in the morning, helping the guy who ran the office. In the afternoon, he let me use their Bloomberg terminal and all of their research to basically trade my own money. So I was like, this is a pretty good deal. I run around and make copies and do boring stuff in the morning, and do all the fun stuff in the afternoon. So I said, "I like this investing business, "but I didn't know you could invest "in private companies." I only knew about public companies. And so I went to breakfast with her husband and he said, "I really want you to come work for me." And so I became a venture capitalist kind of by accident.

- Was that Gilman Louie? 00:06:20,790 - And isn't it true 00:06:22,950 that your life is punctuated by key mentors, like Gilman, in shaping the careers that you end up taking? - Mm-hm. 00:06:29,700 He still gives me advice. Two of probably my closest mentors in life are my two bosses from In-Q-Tel. So I think first jobs aren't everything, but they do kind of have a big, outsized impact on you. - And that outsized impact on your life 00:06:44,400 happened through the wife of Gilman that you just sort of randomly connected with. - From a startup internship 00:06:50,340 that I randomly took because I found a flyer at the CoHo. Like. - And yet, I will tell you 00:06:56,100 that I don't know how, there's so many people that are enamored with venture capital, that are clamoring to get into venture capital. I mean, how many people in the audience would, even though this is the Entrepreneurial Thought Leaders seminar, how many people actually really wanna be a venture capitalist? You can be honest. I'm just curious.

And how many people are actually working at some type of a VC fund right now or affiliated with it? Okay. - Wow. 00:07:18,210 - And so I just wanna preempt the questions 00:07:20,670 that I think a lot of the students are gonna ask, which is, is there a way to engineer that luck that you had to break into the industry? Or if not, how do you break into venture capital if you want to? - I think it's, in some ways, 00:07:34,803 it's easier and harder at the same time today. When I got into venture capital, one of my best guy friends in the world, I met him because one of the entrepreneurs that we met called me one day and she's like, "I met this very nice young man. "You were the only two young people "I met in venture "during my whole fundraising process. "I want you two to become friends." And he worked at Menlo Ventures, and I worked at In-Q-Tel, and we both worked in the same little office complex. And she basically set us up on like a man friend date. And like the guy's become one of my best friends. But there were very few junior people in venture. Venture was a very top-heavy business when I started.

You had partners and you had a couple of junior people, and maybe every now and then, a firm had an analyst. And so it was really hard to break in if you didn't have a ton of experience, both in terms of life, if you didn't have a lotta money, if you didn't have a lotta connections. The venture capitalists, like they weren't looking for scale. They weren't looking to hire people. And I think, and it was also just a very like mystic industry. No one really wrote about it. Back then, there weren't blogs, there weren't newsletters, there was no Twitter. There was very little talked about venture. It was a sort of quiet cottage industry. And now, I mean, I know two people who teach basically online courses about how to break into venture capital.

You've got Dorm Room Fund You've got Rough Draft Ventures. You've got internships with great venture funds and accelerators that are available and accessible to you as Stanford undergrads. And so I hire interns at Precursor, and I'm surprised, I'll find undergrads and MBA students who've had three venture capital internships by the time they apply already. So I think the world is a lot more open now. There's just more venture firms. More of them believe in the power of young people to make an impact and more of them have programs that can allow you to get a little bit of exposure and experience earlier in your career. - And what's your assessment of venture 00:09:22,470 as an industry? You know, on a scale, if I had to have you give it a grade, on a scale of zero to 100, in terms of filling its role in society, of unlocking innovation, of being the source of allocating society's scarce resource of cash towards the innovations of tomorrow, how successful do you think venture capital is in doing that? - What's the lowest grade I could give? 00:09:42,810 - Zero, zero to 100. 00:09:43,740 - Not a zero. 00:09:44,730 Zero would be too harsh. I'd probably say like 25.

- 25. 00:09:48,240 - I would say 25. 00:09:49,527 I would say 25. - And can I double-click on that? 00:09:53,220 - Absolutely. 00:09:55,560 Can you give us more details, so why you think the industry is woefully insufficient in achieving what it's supposed to do? - Yeah, I feel really conflicted about this 00:10:04,560 'cause I benefit from some of these. Some of the things that give us the 25 are things I directly benefit. So by virtue of being in this room, you all are far more statistically likely to raise venture capital for whatever venture you start, simply by dint of being Stanford students. Because I can tell you, as a venture capitalist, I love it when Stanford students pitch me. I try not to have it be an undue influence, but I have affinity for Stanford University, and by extension, I have affinity for everybody in this room. So if you look at the stats, Stanford or Harvard, there's five or six schools that the alumni from those schools get a disproportionate amount of access to venture capital based on their numerical distribution in the population.

Now, look, I think part of that's because Stanford students are special and amazing and bright, but there are also special, amazing, bright people who are not in that small pool of schools. And by and large, many of those people don't have the ability to find access to venture capitalists. And until the last five or six years, most people said, "Hey, you know whose problem "it is to get in front of me? "It's not my problem to get in front of you "and find you with a great idea. "It's your problem to figure out how to get to me. "It's your problem to do the homework "and traverse my network "and find somebody who will vouch for you "and make a warm intro. "And if you can't do that, I'm sorry, "the door is closed to you." So I can't give our industry a very good grade when historically we've made it so difficult for all but a very small number of people to actually even get considered. Let's not even talk about who gets money, who even gets the opportunity to pitch and present. And so there's people, based on their race, gender, where they happen to live in the country, the kind of business they're working on. And remember, like venture capitalists tend to fund businesses that we find interesting. If you're working on a business that's a great business that I don't find interesting, there's a decent chance I will say, "This is a great business, "but it's not interesting to me.

"It's not something I wanna spend time working on." That's a separate question from like is that a business that's worthy of capital? - And why don't the capital markets solve for that? 00:12:00,483 Because even if the VCs are lazy, if there are these under-resourced opportunities that should create better returns, so are there systematic issues at play that are preventing that from getting closed? - I think so. 00:12:15,420 So one thing is it's very hard to get data if you don't run experiments. So if everyone says, "Hey, look, the way to run "a venture capital firm is you get people "from a really small set of backgrounds "with a very narrow set of experiences." Like, when I started in venture capital, I didn't study computer science, as Ravi mentioned. There were not that many people like me, who came from non-technical tracks and ended up in venture. It was you were an engineer, maybe a product manager, maybe. That was sort of considered a prerequisite to be a venture capitalist. You definitely probably should have studied something technical. Like, there was a very fixed mindset in the industry of who could be a good venture capitalist. And maybe once upon a time, when venture capitalists were mostly investing in semiconductors or deeply technical items, I could argue, yeah, it's probably good if you know your way around, you know, the world of semiconductors and electrical engineering. If you're doing internet companies and B2B Software as a Service, I'd argue like you don't need to be a computer scientist to evaluate those businesses.

But the industry, for a long time, was stuck in this mindset that you had to have an MBA from a small number of schools, have a technical undergraduate degree, have worked in probably one of 10 or 20 companies, Apple, Intel, whatever it might be, and have had some level of success. And when you apply that filter, just a very few people get through that. But if the people who are writing checks to venture funds believe that's the only formula that works, that'll be the only formula that gets funded. - And so if you're trying to develop 00:13:40,710 this new model now with Precursor, so the idea is to break the mold, what is the approach? And how did you develop the approach if all the existing models were based on this old world of, you know, signaling off of things that are overindexed? What is your now approach towards diversity with your portfolio, and how do you go about building that? - Yeah, so raising our first fund 00:14:03,270 was not easy. I thought it would be relatively easy. I'd been a partner at another venture fund for five years. And being a partner at another venture fund that does well is probably the easiest glide path in the world to starting your own venture fund. You're considered pretty low risk. It took me two years and 300-plus nos to raise our first fund. It was a very extended fund raise, and a lot of it was, simply put, most people said, "Okay, "there's thousands of venture capitalists out there "who we think are smart people.

"You're gonna pick all of these people "that they have decided not to meet with "or invest in." "What if they're right, and you're wrong? "What if it's just total adverse selection? "You're just gonna end up with all of the people "that none of the other VCs "deemed worthy of capital. "And what if you just end up "with basically the backwater?" And I said, "That's possible." I wouldn't start the fund if I thought that was the likely outcome. But I think what I realized was there's a lot of people who don't even get a meeting. They don't even get evaluated. So what I tell our investors is we're gonna underwrite a group of founders that no one even looks at. It's one thing to try to go into the discard pile of Sequoia or Kleiner Perkins and like try to pick through the founders that they passed on and find the gems. I didn't wanna do that. I was like I'm gonna find this huge population of people who just don't even get a shot, and I think that there's talent in there. And it took me a long time to find investors who bought into that belief and who shared that kinda radical idea that like as smart as venture capitalists are, none of us sees everything. And I was like we're just gonna look in different places, and I think we can find great people.

And so far, it seems to be working pretty well. - And how do you know it's working? 00:15:40,291 How do you measure success, and what is success for you? - Yeah, I mean, you know, my investors 00:15:44,280 measure my success based on how much money I send back to them. We're working on that. We're making good progress. - So is it purely? 00:15:49,216 I guess what I'm wondering, is it a purely financial scorecard? Because I think one of the themes that we're focusing on at Stanford now is sustainability, and also ethics, and thinking about how do you weigh competing interests as an agent and a leader? - So I think one of the best things 00:16:07,530 about starting your own venture fund or startup, whatever, is you get to create your own culture, get to create your own rules. So we think about a couple things. I said, "If we have this philosophy "where we're gonna find these people "that are difficult for other people to underwrite, "then our portfolio should look different "than other people's, "in terms of who ends up in the mix." So there's been some surprising things. I think seven of our 10 most valuable companies have a female founder and CEO. And it's like, I think it's like four of the five most valuable ones we've invested in. They're all working on what I would consider very important digital health or financial issues that are making the lives of people better.

So we do care. I care a lot about impact. So I wouldn't describe Precursor as an impact fund, but I tell my investors every investment we have has an impact, one way or another. There's a bunch of categories we've just decided we're not going to invest in 'cause I don't think they make the world a better place. And there's enough things we can do that are neutral to world positive to invest in that we don't have to go into things that I think are dangerous. And I think ethics are a big deal. And I think in venture lately, there have been a lot of things ethically that I find a little problematic. I think who you choose to fund is a vote of confidence and support in that person's mission, vision and values. And if you're gonna put money behind people, you're really also putting your endorsement and reputation behind them, and so we're picky. There have been some, I don't know, I'd call them maybe problematic people we've met in the course of running Precursor.

I was like I don't want our firm's name associated with that individual based on what I know about the way they do business. - Can you share? 00:17:46,260 So I know, because the danger with ethics is that it stays abstract. - Yeah. 00:17:51,480 - And the reality is that ethics 00:17:53,610 shows up in details. - Mm-hm. 00:17:56,610 - And so to whatever extent you're able to, 00:17:57,720 can I invite you to share some situation where there was an ethical conflict, and how you navigated through it? - Oh. 00:18:04,816 - Or something that you've seen- 00:18:06,150 - I can give you a couple. I met a company. 00:18:07,500 - At whatever level of detail you can. 00:18:09,150 - Sure, I don't wanna like out the company.

00:18:11,163 I met a company that was doing, they claimed it was legal, I had some questions about, off-label use of psychedelic medicine for PTSD. And he was like, "Well, it's legal." I was like, "Is it really?" And I was like, "Okay, we'll put the legal aside. "What consumer safeguards and protections "are you putting in place to make sure "that these very powerful drugs "don't end up in the hands of people "who should not have them?" And I found this person's commitment to safety utterly disturbing. They were committed to doing the bare minimum they were legally required to do. And I'm like, well, if this goes wrong, these are really powerful, dangerous drugs. And you put them in the wrong hands of the wrong people, you could really do a lotta harm. And if I'm gonna make this investment, even if I can get comfortable with the legal piece, I have to know that your compass is more oriented towards safety than maximum distribution. This person's compass is even, I have come to learn, even more oriented towards maximum distribution and growth than I had realized. And I was like I couldn't sleep well at night knowing that the capital we had given this person was effectively being used to create an online psychedelic pill mill. I was like that's not something I wanna be a part of.

To me, that's no gray area at all. That's not something I wanna be a part of. - And you felt that in your body. 00:19:34,800 - Mm-hm. 00:19:35,633 - You couldn't sleep at night. 00:19:36,660 That's how it manifests in the real world in business decisions. And then you took action the next day because there wasn't the accountability. On the flip side, and those are things that obviously you do not want to be supporting or funding with your energy or, let alone, your capital. What are the areas that you think should be funded that VCs are turning a blind eye towards? Or if you're a Stanford student today, what would you create a startup in? - I think climate's a huge opportunity. 00:20:03,360 I think that is back in vogue, so I would be hard-pressed to say that climate isn't getting, maybe you would argue it's not getting enough attention, but there's certainly large pools of capital going after software and hardware issue, problems to address.

I think there's a lot of things in the world of like what the problems that low-income Americans face in their day-to-day lives that are just not the problems that VCs are familiar with. Like, most of us do not encounter these problems. These are not the problems we bump into in our lives. And I think these are problems that are chronically underfunded. And I think many people who don't have familiarity with these problems don't know where to start in looking to address them. And because most investors can't relate to the audiences that those products address, in many cases, it's hard for them to get excited about funding those businesses. So we don't have enough of those tools. - Are there things structural within the VC? 00:20:59,173 So, you know, a VC can seem like a simple business from the outside, and a glorious and well-loved and appreciated industry from the outside, but having been in the industry now for-20 plus years, are there certain structural elements that you think undergird the system that hurt innovation and hurt funding things that should? - Wow, there's a lotta things. 00:21:22,770 I'll tell you just a couple things. One of the big ones to me is you read these numbers.

Venture capitalists raised $100 billion and change last year, but when you dive into the data, you'll realize 1/2 of that money went to maybe two dozen firms or so. And what you realize is while venture capital, there's a lot of money in the ecosystem, it's pretty concentrated in the hands of a relatively small number of firms. And so what ends up happening is because those firms have a disproportionate amount of the capital, and like I said earlier, venture capitalists tend to fund what they find interesting, the preferences and interests of a relatively small number of people are dramatically overrepresented in terms of what gets funded. And those people are able to accumulate large amounts of capital because they have good historical returns or they're good at marketing their funds to the kinda people who want to invest in venture funds. So it's not to criticize them for a lack of performance or anything, but they represent such a large, concentrated pool that like the things they like are going to get funded, and the things that they don't like are gonna have a much harder time finding access to capital. And I think that's structural. I think the other thing that's structural is in most venture capital firms, they are very undemocratic. (laughs) You have a very small number of people at the top who are in charge, who largely dictate what the firm is going to invest in, how capital's gonna be allocated across partners. And so what you really end up with is 1/2 of the money in the industry is in the hands of a very small number of firms. And those very small number of firms are effectively managed and controlled by a very small number of people.

So if you really zoom out, there's a very small number of people who set the agenda for about 1/2 of our industry. And that's a big structural- - Yeah, and it's an industry 00:23:06,344 that controls innovation in the world. - And it's an industry that, yeah, 00:23:08,010 decides who gets funded. - So you're saying that a handful 00:23:11,310 of people actually are really the mafia behind almost every, how we allocate innovation-driven dollars. - And I think in many areas, 00:23:18,540 they have good judgment. So it's not to say that like they're flawed individuals, but I would say structurally, like that's one of the constructs of venture. And so people say, "Wow, "we have all of these small venture funds. "Like, why isn't anything changing?" I'm like, "Well, because all of those small venture funds, "even if they moved in concert, "are maybe 1/2 the size "of that core group of big venture funds "that has most of the money." - And is there a way to change that? 00:23:40,410 So, you know, we are in the school of entrepreneurship. We're in the entrepreneurship center in the School of Engineering, so every challenge is an opportunity. This seems like a systematic challenge, and it almost seems like one where it's a bunch of good intentions that have created this very perverse outcome.

If you were an entrepreneur and you wanted to change it, do you have any thoughts on how you could change the structure? - Yeah, I mean, 00:24:01,500 I think the more existential question to me is like we have this concentrated industry. Do those players behave that way because that's who they are, or do they behave that way because they have ascended to a tier and size in the industry where they have outsized power? And I think that traditionally, like what's happened for most venture firms is like as you're more successful, people wanna give you more money. And most VCs are not in the business of not taking money. So people give you more money, your firm gets larger, you become more powerful. And my big question is like, well, what's the chicken and what's the egg? Is it that like you start off with good intentions, and then as you get larger, it becomes harder to deliver on those intentions? Or is it that the people who end up getting large have a different set of values and intentions in the first place? So what I would say is if I wanted to disrupt the industry, I think the people who have a chance to break it. I mean, I look at Andreessen Horowitz. That fund is 12, 14 years old. Not that old. - Not that old. 00:24:55,661 Yeah, and how many billion? - They went from zero to $54 billion 00:24:59,700 under management, probably the third or fourth largest venture fund in the country, in 15 years.

And they have, in many ways, changed elements of our business and the way that other VCs behave. I look at Y Combinator. Y Combinator is 20-ish, maybe, 15, 20 years old, also. - Yeah. 00:25:18,390 - YC changed the way 00:25:19,830 that early-stage startups get built and funded. So I think the way to change venture capital is to build an institution that causes everybody else in the ecosystem to behave differently. Very hard to do, but when you do that, you can actually change the rules of the game. - Okay. 00:25:37,980 I'm gonna ask one or two more questions, gang, and then I'm gonna open it up. So if you have any questions, start thinking about them.

Charles is very explicit about being open, which is why I wanna go into questions around race. - Sure. 00:25:58,080 so it's sort of unfair to ask somebody to opine about sort of a more generalized social situation. But I wanna ask is how significant of a role do you think race is in the venture capital and entrepreneurship industries today? So, you know, what has your experience been as a Black VC? Do you think that's noticeably different than? Has it notably shaped your experience? - I've always struggled to answer this question 00:26:23,610 because I've basically experienced, maybe only one or two times in my life, really explicit like, oh, that was definitely racist. Like, only once or twice in my career has it happened. And so the one thing that's been interesting for me is I have, you know, no one person is one thing. I have two degrees from Stanford, and I'm Black and I'm a man. So I have all of these different dimensions, where there are times I'm in rooms and I'm like, oh, I'm in this room because I have the Stanford card. Like, I got invited into this room because I went to Stanford, and the fact that I'm

Black is secondary to that. There are other times, I'm like, oh, I'm in this room because I'm a man who runs a venture firm, and my gender is the thing that's allowing me to be in this space.

What I will say is there have been so many times I have showed up for a meeting and the people are looking around, and I'm like, "No, it's me. "Like, I'm Charles Edward Hudson III." Like, I'm not always the person they're expecting when I come to the meeting or I come in the room. I definitely have had people. I'd say probably the most obvious thing that's happened is whenever I pitch my fund, people just assume it's a diversity fund. First off, I don't even know what a diversity fund means. And people are like, "Oh, it's a diversity fund." What does that even mean? I don't know what those words mean. But people assume that's my... I know what they mean. They're like, "Oh, you're a Black VC." - Do they assume you're gonna be funding Black founders? 00:27:37,080 - They assume that that's like what I'm, 00:27:39,450 and I'm like, that's not our strategy. We happen to have about 1/4 of the founders in our portfolio are Black or Latino or Latina, but it's not an explicit thing.

But they jump to that immediately when I meet them because that's the only thing they can assume is my takeaway, that like, oh, you are a Black man running a venture firm, so therefore, we assume that. And I'm like, no, like our strategy happens to produce a disproportionately large number of Black founders relative to everyone else, but 75% of the founders in our portfolio are not Black or Latino or Latina. And it's all of these assumptions I can see people jumping through. - Do you also face the assumption 00:28:18,060 from Black or Latino or underrepresented founders that you should be nicer to them? And is that also an equal, is that also a significant? - If I were to look at 00:28:29,520 the people who are our biggest detractors and who give me the most grief are Black founders, for sure. And I get it. They expect more from us. It's not even just that they expect a yes. Some of them do, and I'm like, "Well, I'm sorry, like we're not gonna say yes." But I feel a lot of pressure to give them a good experience, even if we tell them no, because I know the experiences that they're having at other firms are just not good. And I think we've run an experiment over the last couple of years, where we've given capital to a lot of Black founders, Black-led venture funds. Some of those Black-led venture funds don't have a lotta Black founders in their portfolio.

And I think some of their funders thought, oh, if we give this person money, that it will trickle down, and it hasn't. And so. - But because that is the narrative. 00:29:17,723 That's almost- - That's the narrative. 00:29:18,570 - That we were almost describing 00:29:19,860 a couple of minutes ago, is that there's a few people, and those people are likely, you know, white men, that are in that mafia of controlling this disproportional capital. And that if that's the problem, then if you address the power structure. But you're, yeah. - And I think, you know, I think 00:29:35,880 the same thing was thought, that, well, if we had more female investors, we would end up with more female-funded founders. That also hasn't turned out to really be true in the aggregate. And I think it's kind of an unfair burden to put on, the very small number of people of color and women who are in these positions, to put all of the burden of like changing the numbers and fixing everything on this very narrow set of people.

It's everybody's job. It's not my job. It's everybody's job. And I think there's a set of, there's a lot of issues here. And I think the big one, though, and it's not something I talk about a lot, is a lot of venture capital comes down to vibes, basically. It's like do you like the person who's sitting across the table from you? Do you feel a connection? Do you feel some? 'Cause remember, I'm giving them money, and very little control. Like, once I give them the money, the founders can do whatever they want. And I'm just struck by how many people I meet who don't have a Black social friend, don't have a Black neighbor, don't have a Black co-worker, never had a Black boss. And when you add on gender and get to intersectional issues, it gets even more complicated. And I think for some people in venture, like Black people and Latino people, they're like basically foreign.

Like, they have no social or professional interactions with them. And I have to believe, on some level, that that makes people feel distant and strange to you because you don't have any social or professional network or interactivity with them. I gotta believe that that has an impact on the way you, just the way you approach that meeting and think about the person sitting across the table from you. - And so it's sort of a subversive racism, 00:31:10,680 in some ways. Well, and I don't wanna put words into your mouth, but it sounds like there is this pervasive thing that nobody, in good conscience, would say, but that it may be affecting behavior. - Yeah. 00:31:30,247 "and the people in your portfolio, "I don't know that I would feel welcome. "The signal wouldn't be welcome." And none of those firms I talked to, the were like, "We're not trying to do this. "Our intent is not to produce this outcome." I'm like, "Well, intents are nice, "but outcomes are outcomes." - Yeah. 00:31:49,470 Were there other Black VCs when you were in the VC world, or did you feel like a singularity? Were there other peers? And did that affect you? - I literally knew them all by name.

00:31:59,548 (Ravi laughs) - And how many? 00:32:00,381 - There were like three of them. 00:32:01,287 - Okay. 00:32:06,180 up-and-coming Black VCs by name. I no longer do, I'm actually really optimistic for the future. - So you gave us this number of 25 before 00:32:11,873 on the whole industry. Well, looking at it from the lens of race, of racial issues or racism, how significant is that, do you think, in weighing on the industry going forward? So on a scale of zero to 100, 100 meaning that we're in a perfect state, zero meaning we're in hell. - We're like a 10. 00:32:30,015 - So we're still? So there's still? 00:32:32,640 - Mm-hm, we're at a 10, but it's gonna get better. 00:32:34,770 It's gonna get better because the people I meet, not just the... The next generation of venture capitalists that I meet, they just want a different world.

They really do. They want a different world. They demand a different world. And when they take over, when they either take over the firms where they work or they start their own firms, they're going to behave differently. And I've already seen it. - And is it even a 10 if you're? 00:32:53,940 So you are the power person because you're the VC, so you have the power. Is it still a 10 for you in terms of does racism affect you more profoundly as the founder if you're in the less position than if you're- - I think for me, personally, 00:33:09,804 it's like a 50. - It's a 50- 00:33:20,910 one time's been a overt feeling of racism. Is it a discomfort, is it a covert feeling? How does it show up? - I think the weird thing is, every now and then, 00:33:29,970 you know, we've worked very hard at Precursor to raise all the money we've raised. We've gotten a lotta pushback.

We've had a lotta resistance. And I've met people sometimes, I'm just like, well, that person hasn't done anything. (Ravi laughs) - And they raised. 00:33:42,394 - And they raised like three times as much money 00:33:43,503 in 1/2 the time. - So, you guys, I don know if you guys understand. 00:33:46,650 Charles, can you explain why raising a fund is different than raising money for a startup? How is it different? - Yeah, so, you know, 00:33:51,900 raising money for a fund, you gotta go out and basically convince people to give you money based on your ability to pick and select companies that will then take your money and then become big. And effectively as a venture capitalist, like money is the necessary input for your product. So there's really no way to like bootstrap a venture fund unless you're wealthy. Whereas if you're doing a startup, a couple things. One, if three engineers in here wanted to build a product, and you didn't have money, you could do nights and weekends.

You could actually advance the product. Second, there's a set of people for startups who will fund you at the idea stage, that will fund you when you have early traction, that'll fund you for growth. I go back to the same set of people every single time I raise a fund. They're like the same pool of people. And basically, like I'm pitching them on my ability to find 80 to 100 great companies in the next two years that we can give money to. And so it's almost completely subjective on their part about whether they like me and believe what I'm telling them enough to give them money. - And when you're raising on a startup, 00:34:49,680 correct me if I'm wrong, you could get one investor and be off to the races. - And be off the races, yes. 00:34:52,920 - With a fund, 00:34:54,510 typically, nobody wants to own more than maybe 10% of it. - We have 56 investors in our first fund.

00:34:59,010 - Have to get at least 10 or 50. 00:35:00,510 So you have to get a lot more. And so you're feeling, also, that just in the process of fundraising? - There are definitely times I'm like, this feels like, 00:35:11,340 you know, given my previous performance, this feels harder for me than it is for other people, and that's one potential reason why. - And that's 'cause you're on the receiving end, 00:35:18,090 potentially, of that vibe of conversation that you were talking about with the startup founders and the VCs. Terrific. Thank you, Charles, for being so open. I wanna turn it over to the gang, to the class. So we'll open it up for questions. The CAs will come around. And please just ask your question.

Yes. Student First of all, thank you so much 00:35:37,620 for showing up in person. It's really great to see you here and hear all the things you have to say. As a room of Stanford students that are especially interested in entrepreneurship, right, we always hear like these are the things that VCs are looking for in, you know, startups outta Stanford or whatever. But Precursor Ventures is different because you actively seek out a different set of companies with, I assume, different values, different mindsets. What's the advice that you would give to us, like traits that you're looking for or like a common denominator of the companies that you're investing in? And how is that similar or different to your peers in the space? - I think I'm an optimist at heart. 00:36:18,210 This is a plug for Stanford. One of our single most successful startup companies is, I think they were maybe a year outta school, Nathan and Sophia from Pair Eyewear. Like, they're one of our most successful investments. I invested in them with relatively little professional experience outside of that company.

So a couple of things. I don't really care about professional experience. My basic belief, having invested now in hundreds of founders, you don't actually know who's gonna be a good CEO and founder until you put them in the job. You can try to extrapolate, oh, this person managed 100 people at Google. You don't know. Being a CEO is a really different, and founder, it's a really different job. You have to do a lot of things you've probably never done before, hiring, firing, raising money, setting strategy. And like the buck stops with you. So I'm an optimist, I'm like I'm gonna bet on the people that I think will grow into that role when given the opportunity. So we invest in a lot of people for whom it's their first time being a founder, and many of them are within a couple of years of graduation from school.

So that's one. Second, and the big thing I'm looking for, is some level of comfort, and this is kinda hard to test for, with ambiguity because a lot of the early, maybe the first two years of startup life, when I look at the teams that either quit or get frustrated or don't make it, it's usually like the inability to sit with this like ambiguity around the startup. You're trying to find product-market fit, and you don't have it yet. You're close, and like no one else can tell you what to do. And the third one is the ability to tell me a really clear story about the world that you're trying to build and like the product that you wanna build and how the world would be different. And that's something I think that's accessible to anybody, regardless of like background or experience. - Hi. 00:38:03,480 or a like early-stage VC firm, can you talk a little bit about how, what it is about Precursor or what it is about how you show up as a VC that would make like an early-stage startup want to go into a partnership with you, beyond just the financial capital, beyond just the paycheck? - Boy, it's the thing 00:38:21,420 I think about first thing in the morning when I wake up, and it's the last thing I think about literally every day. Because the funny thing about venture capital is... Your question's a very, very good one.

You know, when I used to invest in public company stocks, it didn't matter if the CEO liked me or knew my name. I could just type in the ticker symbol and buy the stock. But I actually need people to choose me. That's the whole business. So I think a lot about, well, what did I want when I was a founder? I think there's a bunch of services that venture firms market, marketing and recruiting. I think a lot of the founders we wanna work with, they want a friend. They want someone that they can build a relationship with, of trust, and where they can bring their problems and that we can work on those problems together. And so one of the big things we pitch is like availability and specialty. So our specialty is helping people do that sort of zero to one product-market fit finding, which can be really frustrating for investors who are used to dealing with finished product companies. And so what I tell people is like the thing you're trying to do is the only thing I do.

I don't work with pre-IPO companies that are trying to get ready to go public. I basically only work with zero to one founders. And I work with 'em in an intentional way, with no one in between. I have some junior people on my team who are great, but like every founder deals with me one-on-one. There's not like layers of management you have to go through to get me. And so I tell people, if that's what you want, like we're pretty good at it. If you want something different, we're probably not the right firm for you. It's also easier to sell the firm when there's only one partner. It's pretty easy to control the brand experience when it's like an N of one. [Speaker] We've got one from online.

- Oh, terrific. 00:39:59,340 Speaker What changes have you seen 00:40:00,963 in the VC world since COVID? - Wow. So many. 00:40:06,390 So pre-COVID, we had already moved to a world where we only did first meetings on Zoom, even for people in San Francisco, just because I realized I could take twice as many meetings per day if I did them on Zoom than if I had people come to my office. And also, pre-COVID traffic in San Francisco was so bad. I was like why am I gonna have somebody come all the way across town to meet me for 45 minutes, probably to get told no, on average? That just feels like not a good use of their time. And my investors all made fun of me. They said, "You can't possibly "do this job (laughs) well "if you don't meet the people in person." And I was like, "Well, "our single most valuable company "and our second fund, "I still have never met the founder in person. "So I mean, I don't know, "it seems to be working okay for us." And like the whole venture business reluctantly moved in that direction during COVID. I think what we lost, though, was I think we lost the ability to spend time together outside of really transactional work in venture.

So pre-COVID, you know, I'd go to a board meeting, and you show up an hour early. You get to see the rest of the team. You could have a snack. You could talk to the CEO. You get a feel for what the office feels like. You go to a board dinner after. You get to spend time with your fellow board members. And that stuff is important. And I think we got into this very transactional Zoom after Zoom after Zoom, where we were doing more work, but maybe with less depth than we had before. And so what I've been focused on post-COVID is really rebuilding depth with both people I co-invest with regularly and some of the founders.

Like, I'm working my way through. I still have not yet met in person all of the founders that we invested in during COVID. But I don't think we're ever going back to all first meetings in person in venture. Like, we're never going back. We're never gonna go back to all board meetings in person, I personally think. And I think the upside is that it means that firms, in general, are open to meeting people from farther afield than maybe before. Ravi Terrific. Thanks for the question. 00:42:02,130 Other questions? Yes. - Way in the back.

00:42:04,463 - To your right. 00:42:11,070 Student Thanks, Charles, for sharing 00:42:14,370 your experience in the world of venture capital. It has been something that has really intrigued me for a very long time. So I was just wondering, on the point of racial representation in VC, it makes me super happy to see that there's more representation from Black and Latin VCs. I'm just kinda curious what, in your mind, would be a way to kind of enhance that into more representation from, let's say, Indian VCs or other Asian VCs or even women venture capitalists? Because the percentage is actually very low right now. - Yeah. 00:42:52,110 I think there's this big debate in venture, which is like do we fix this problem by trying to get existing firms to change the makeup of who they hire? Or do we just have all of these frustrated people go start their own firms? For the last like 10 years, (laughs) I think the answer's been the frustrated people just leave and go start their own firms. But those firms are all subscale. I mean, the crazy thing is we're probably, in terms of assets under management, at 175, we're probably the third or fourth largest Black-owned venture firm in the country. And the $175 million is nothing in venture capital.

It's like teeny, tiny dollars. So the challenge is if we're gonna solve this problem by everybody going off and starting a little fund, we're gonna have a ton of little funds out there, but nothing of scale. And I think we need to do both. I think there needs to be continued focus on how do we get people into leadership positions at large, established funds, too? And if I look at the population of like up-and-coming people at big funds today versus 10 years ago, you will see more Asian people. You will see more women. You won't see that many Black people yet. But to me, like I look at the talent pipelines in those firms, and those look different already. The problem is most big venture firms hire a couple people every year. So it will take you, it's kind of like changing tenure or changing the faculty profile at a university. You only grant tenure to so many people so often, so it happens slowly, slower than I'd like.

But I'm really impressed by how a few of the really large firms have made a conscious effort to make sure that their senior associate, principal, junior partner ranks are, at a minimum, more gender diverse. - We have time, if there's a quick question. 00:44:34,740 I think otherwise, we will call it. - Oh, we have one down here in the front. 00:44:37,020 Perfect. We've got about 30 seconds, Charles, just FYI. - Okay. Thanks. 00:45:03,000 Some of 'em come in through our website. We've actually invested in companies through the website.

Some of 'em come into my inbox. And the first question I always ask about anything is like is this an interesting business, yes or no? And there are lots of things, for ethical reasons, particularly in finance. I'll just say quickly. I think all of the ethical gray area in venture for us has been fintech and finance, lending products, where you're like, well, is that interest rate unethical? It's a set of people who don't have access to capital or credit, but at the rate they're being charged, is that rate? That's where I find all the tension is in the model, is when I'm looking at things in fintech. There's lots of things I can just say. And we've seen a bunch of things lately, also, in citizen policing in response to kinda crime. And I'm like, and there's a lotta ways I could see this going horribly wrong. So I gotta stop there, though. - I've gotta stop you, unfortunately. 00:45:49,380 You can get that and more, though, if you go to the Precursor site or try to get access to Charles himself.

So with that, we're gonna end this week's ETL. So thank you, Charles- - Thanks. 00:45:58,091 - For a fascinating discussion. 00:45:59,323 (audience applauds) (gentle electronic music)..