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Interview with Dave McClure from Founders Fund



Adrian Bye: Today I'm talking with Dave McClure who's now with The Founders Fund. I actually met Dave like ten years ago when we were both just doing a little bits and stuff in Silicon Valley and we had a couple of cool dinners together. Dave has really taken off out in the valley as one of the big networking guys and he is on the Twitter and Facebook constantly, and putting out a lot of interesting content and is now part of The Founders Fund. So, I guess he has turned into a VC. Dave, thanks for joining us and tell us a little bit of what is going on.

Dave McClure: Thanks, Adrian. I think I'm probably one of the most dangerous people alive with sharp tools and objects, so if I could have any amount of money in the VC at all, it is probably a crazy thing, but I'm having a blast.

Adrian Bye: So, why don't you tell us a little bit why about the way you came from? I know you had Aslan Computing, a consulting firm, and some of the stuff you've done in the past, and sort of you get us to where you're at today?

Dave McClure: Right. Actually, I started out as a developer. I came out to Silicon Valley in late 80's, actually 1989 and started out here as database developer and programmer, and then started a company that was an internet/e-commerce company. It started out being more of a consulting company I was using to do some work for Intel and Microsoft, and gradually added a few friends to that company. That became my first venture of sorts and I probably did everything you could possibly do wrong as an initial business owner. It was a very useful set of lessons and I surprisingly managed to get a small acquisition that occurred out of that. Along the way I made a transition from being primarily a developer, an engineer into being a small business owner and then I used more technology marketing and technology evangelism, I guess as we call it now, and that sort of stuck with me. I really have been enjoying being a very extroverted and outgoing geek. I call myself that rather proudly. Subsequent to that, I had a great opportunity to be at PayPal for a few years and running a developer network program there that was also kind of a technology education, technology marketing function. After that, I ran marketing at Simply Hired for a little while and also became an investor at Simply Hired. Then nearly I think over the last five years got more into doing angel investing on a personal basis, somewhat haphazard and then more regular. About a year ago, I started getting to know and talking to the Founder Fund guys who were some ex- PayPal, people I used to work with, and jumped into it more formally. So now, I've been running a number of different programs, sort of running a seed-stage investment program for Founders Fund internally. I have been doing both some investments as well as some education

and outreach evangelism programs for entrepreneurship. That is really a lot of fun. So, I guess that's for the last twenty years in a very short order, a couple of other things along the way. I'm sure we can talk about a little bit of it as we go forward.

Adrian Bye: Well, you're, obviously raised one really very interesting point, we see it all over the media, about the PayPal mafia.

Dave McClure: Yes.

Adrian Bye: Tell us a little bit what that actually is and what that means.

Dave McClure: Well, first of all I'd have to say I'm really just a very low level henchman in the PayPal mafia. But for one reason or another I'm not exactly sure I know the whole story here. There has been a disproportionate number of people that have been entrepreneurially focused that came out on PayPal. So, probably most notably I think, Reid Hoffman who started LinkedIn, Jawed Karim, Steve Chen and Chad Hurley who started YouTube, Jeremy Stoppelman and Russell Simmons who started Yelp, David Sacks who has done Geni and Yammer, and also as well has produced some very cool movies. I'm sure I'm forgetting one or two...Max Levchin, who is the co-founder of PayPal along with Peter Thiel. Max ended up founding Slide. Peter the former CEO-founder of PayPal went on and started doing hedge funds, Clarium Capital, and then eventually started The Founders Fund as the private equity side of that, which is where I've ended up. I think that's the least of folks that I remember off the top of my head. Roelof Botha, also of Sequoia, is one of the youngest partners of Sequoia. It's really strange that I get rolled into that group of folks. I have not created a billion dollar company like many of those other folks, but I think there's many of us who shine in the backdrop of all the rest of those folks who've done great, great things.



Adrian Bye: But your star is still rising so you're on the way up and moving as part of that crowd, would you not agree with that?

Dave McClure: I hope you're absolutely correct, but I certainly know that I get a lot of benefits from the association with all those folks and it's probably not as well deserved...

Adrian Bye: I saw a comment on your Twitter page. Every time I log into Twitter or Facebook, it's like Dave McClure all the time and someone else's like quoting you and I guess you retweet them, it's hilarious. I mean, every where you go there's Dave.

Dave McClure: I think it is very true, I am a very outgoing person in the Valley and I will admit to going to an evening event or two.

Adrian Bye: I'm really quick to delete people that are not interesting. I read all your stuff both on Facebook and on Twitter because you post really interesting stuff.

Dave McClure: Thank you, Adrian. That's very kind. I must say that I spend a lot of time on those tools and I'm probably addicted to them in almost every sense of the word, but hopefully I'm not too annoying with all the stuff that I'm doing on there.

Adrian Bye: It's good stuff. With the PayPal guys, aside from Peter, have any of the big shining guys, have any of them done a startup that's not related to viral marketing?

Dave McClure: Certainly, David Sacks, had a pretty amazing success with "Thank You for Smoking" which was a movie that was...

Adrian Bye: I've seen the movie.

Dave McClure: Those of us who worked with David internally knew he was a very exacting task master in terms of copy edit from the site, seeing him as kind of a movie producer and writer, executive producer of sorts, actually..

Adrian Bye: Did he actually make the movie? I thought those guys invested in it and didn't actually do anything.

Dave McClure: I think David probably did invest in it, but I actually think that David probably had a hand here and there in some of the things that happened with that. It's hard to say. One of the things that is probably interesting is success has many mothers out here in Silicon Valley, or success has many fathers. But it is really curious...a lot of the businesses were definitely based on some amount of consumer internet focus, in some cases viral marketing, in some cases search engine optimization. I think there is definitely a couple of different trends that were common to many of those businesses, but probably I think the thing kind of most surprising is the sheer number of people that came out of PayPal that ended up starting some form of business that became relatively well-known.

Adrian Bye: To me, they really saw viral marketing take off for PayPal, so they went and just went and pushed that. I mean Slide viral marketing through Facebook, Yelp has virally driven sign ups and Yammer.

Dave McClure: This is a very solid acquisition strategy for customers for almost all of those that I would say that a couple people learned things about search that was not necessarily part of any of the DNA at PayPal. But really I think the thing probably most notable, and I really had a very recent opportunity to talk to Peter about this was PayPal was really a crucible of sorts. it was a very challenging environment. There's a lot of people who were probably not interested in PayPal succeeding, and among them were other financial institutions, banks, legal entities, eBay at various times, card associations. I think it was always a very challenging environment, and I think a lot of people used these, the adverse from that which doesn't kill me makes me stronger. So, pretty much everybody at PayPal had this infused into their DNA, they were incredibly paranoid about survival and really trying to just be as focused as they could on surviving. I think for whatever reason that made a lot people who came out of PayPal very focused on how to get things up and off the ground, viral marketing being one of them, but also just being incredibly conservative and somewhat cheap on customer acquisitions strategies. Really, I think understanding just how internet marketing works which...

Adrian Bye: Do you think it was like a small core understanding of internet marketing itself rather than just viral marketing and that stuff?

Dave McClure: Yes, I think so. There's a lot of other companies that have been successful based on engineering culture and certainly PayPal was largely an engineering driven culture, but it was different than the way Google is about engineers. I think if there was maybe one thing I would say that we were, you know...there's a pretty long and interesting series of essays that either David Sacks wrote or there was someone who did an interview with him and talked about how he was thinking about customer acquisition

and it just wasn't anything that you've ever heard out of either this business driven culture or engineering driven culture. We're engineers, we're focused on cool features and products and a typical business organization was focused on spreadsheets and graphs and numbers, but when you heard David talk about things, it was like, okay how do we get an incremental customer at a very minimal market cost and then how did that translate into very, very specific and barebones features. I think a lot of the techniques that people now are starting to associate with acquisition focus start ups and nimble Internet marketing. A lot of those ideas were things that people were playing with fairly early at PayPal around 2001 to 2002 or so.

Adrian Bye: Well, I guess we're getting on the very moment ten years later.

Dave McClure: Yes, it's been a while now since a lot of that stuff happened, strangely enough.

Adrian Bye: Do you, I mean, personal opinion, do you think would PayPal have been better off if it stayed independent and have those guys driving it forward?

Dave McClure: You know, it's really hard to say. There's definitely a couple of factors that drove the acquisition. One of them was that a large percentage of PayPal's business was happening on the eBay market place, probably more than half, probably close to two thirds at that time. The other thing was there is a reasonable amount of revenue that PayPal was earning from two particular markets, one, the gaming business or gambling business, and the adult services, shall we say, and those two businesses were the ones that I think the US government was not necessarily so interested in seeing online companies perform. So, PayPal was facing a decision about how do we handle these two lines of business that might be high growth and profitable for us but are likely to face a lot of litigation, and then also just from relatively nuts and bolts perspective, any type of acquisition, PayPal was always going to be more valuable to eBay than almost any other company. That was relatively difficult to arrange any type of competitive acquisition where there is more than one player who had as large and valued an interest in PayPal. Really, what ended up happening was PayPal went public, as kind of the second alternative to Meg Whitman at eBay buying PayPal. Finally, only after going public and sort of valuing the company that way was the deal worked out for PayPal to be acquired by eBay. As a result of that, they pretty much shed their efforts in adult and gaming businesses. I certainly think that many people look at PayPal and say well, if we've remained independent we would have been this huge company that was much bigger than a billion and a half or so than eBay acquired at. But there was this turning point transition that PayPal had been facing in but would have been a lot more challenging going alone as an independent if they decided to keep those businesses. So, I don't know. I think in hindsight opinion, I'd say, well, if they'd taken more extreme steps and set it up in proper ways, PayPal might have been this ten, twenty or fifty billion dollar company.

Adrian Bye: But they might not have been PayPal, they could have ended up like small subsidiary of Bank of America.

Dave McClure: Right. Well they could have been litigated off the face of the planet or have to move to an offshore environment. There's a lot of large and significant challenges that I think weren't as easy to navigate with full foresight. All things being equal, a billion and a half dollar payday probably isn't the end of the world.

Adrian Bye: Well, it sounded though that they didn't make as much as a lot of other guys.

Dave McClure: It's true. I think that is one of the smaller less told stories probably due to all the capital that PayPal and actually also X.com had raised, and the companies had merged around the 2000 time frame. That really a lot of these equity holders were not the founders, they were outside investors. Certainly, it was a

great story for all involved and I think a lot of people made money but relatively speaking I think the founders did not end up with as huge paydays as many other people might have thought based on the numbers.

Adrian Bye: I was disappointed to see that because I think guys like Max and the others worked really hard and they deserved more.



Dave McClure: Incredibly hard. That was the other thing was that the culture of PayPal was really driven to an extreme and it was not unusual at all to see people there even after the company had gone public to see people working until midnight. It was both fun as well as burned into the culture that we played hard and worked hard and had a lot people there staying late. But I do think that there is maybe an interesting other footnote to that PayPal mafia story which is it may have been that people there felt like they didn't really get as much of the benefit as they had put into it, or at least that they maybe left a lot of money on the table for the investors as opposed to themselves, and many of them wanted to go back and really prove that out and were still kind of hungry. So, it's possible that because people were so driven and still a little bit hungry after the PayPal payday that many of them went on to start their own businesses too.

Adrian Bye: Oh, right. So, that makes sense. So, they've seen them all at work, they've seen viral acquisition worked, they knew how to get things done, they had the contacts, they had a reputation because it was PayPal, and so that...yes, that makes sense. So, out of that came a certain little enterprise called The Founders Fund?

Dave McClure: Yes, and that was started I think probably around 2004. So, originally it was a fifty million dollar fund that was pretty really stage funds and then later, a couple of years ago, I believe Sean Parker also

joined, Ken Howery, Luke Nosek and Peter Thiel out of Facebook and they raised a slightly larger fund, about two hundred twenty million dollar fund, which is the one they had been operation on for the last couple of years. Again, I think Peter Thiel has always been a pretty amazing person for identifying talents, both in bringing people into PayPal and then subsequent to that doing a lot of individual angel investing. I guess, Peter through also Ken and Luke and Sean, those who had been able to get involved in a lot of really amazing businesses relatively early. Probably again, I think that that skill in viral marketing and Internet marketing has been very helpful in both getting them into interesting companies as well as maybe helping them be successful.

Adrian Bye: And so one of the tenets of The Founders Fund, as I understand it, is that it's the Founder's Fund, because it's about taking care of Founders, making sure they get well compensated for starting up companies. Is that accurate?

Dave McClure: Yes and that's maybe from feeling that they didn't necessarily have this much of that opportunity when they were doing their own businesses, but I'd say the main thing that The Founders Fund tries to distinguish from other companies is that it's built by people who built their own companies. So, in particular there's been a lot of the DNA of three companies, in particular, PayPal, Facebook and Google that represent a lot of the people on the investment team. Those three companies have had a lot of engineering driven success, a lot of focus, founder efforts. It's not really the most traditional VC approach to investing. I think at least in the past ten to twenty years, a lot more of the VC community has come out of the financial services and money management world. Not necessarily a bad thing, that's just kind of how the business had evolved. It's true that both Peter and PayPal were also cut from that cloth but I think the one difference that we try to make known is most of the people involved in investing in The Founders Fund had been involved in doing their own companies at least at some time or other.

Adrian Bye: Dave, why did you join Founders Fund rather than do some of the other stuff you have going on?

Dave McClure: Well, to be honest, I was working at raising my own fund at the time last summer when the market went through a relatively significant amount of turmoil. But Sean approached me, I got to know him a little bit through both the PayPal community as well as the Facebook community. He really made me a compelling offer to come in and do some of the work that I've been wanting to do through the vehicle, through the umbrella of Founders Fund. So, I don't think I'd be able to do what I'm doing in these kind of projects that I'm doing at most traditional VC firms in the Valley. My background hasn't by any means been a traditional one either. So, I think the fact that both I knew people at Founders Fund who had come out of PayPal they had a very different approach, they were very Founder friendly in terms of how they went after putting businesses together and working with people. They were really willing to take a bit of a flier on me and give me a shot in ways that most of the VC firms wouldn't have been quite so free willing or free thinking.

Adrian Bye: And how long have you been there now?

Dave McClure: I have been working with them for six months and it's been a pretty crazy last six months, but very active last six months.

Adrian Bye: To me it would seem like given the amount of attention and the network that you build up there, it would have been a tremendous catalyst for the Founders Fund. Have you been getting a lot interests and potential deals and all those sort of stuff?

Dave McClure: I think it was a really good match. I enjoyed doing a lot of entrepreneurship and education and technology. Cheerleading, I guess for lack of a better word, along with the investing stuff and so I've been doing a number of user groups and conferences for many years, but in the last few years, I've been working with O'Reilly and a few other people doing conferences around internet marketing, around Facebook and social networking platforms, and then around start up techniques and metrics and analytics. It's a little bit unusual to combine investing with the type of events and conferences approach that I've been doing but that was one of the things that The Founders Fund was looking for was to combine role in both entrepreneurial outreach and marketing, evangelism as well as being able to identify early stage companies that were a little bit earlier than the traditional series-A type of focus. So that fit really well. I've been doing a lot of start up related efforts and mentoring and things over the last five years, and really the chance to have relatively small amount of capital but a lot of freedom is a really great way for me to break into the more traditional investing world.

Adrian Bye: Is that your goal now to become a VC? I guess you are a VC but do you want to be John Doerr at Kleiner or someone like that?

Dave McClure: Well, I don't know that I will ever likely end up as John Doerr. Heaven forbid that I ever end up that successful, that would be terrific, but I feel like in some point I might still do my own start up again and that would be fun. What I really enjoyed is pretty much since leaving PayPal, even while I was at Simply Hired, but I got the chance to invest in a lot of really fun start ups and as a personal angel investor was in about twelve or thirteen deals, I just really found that I enjoyed that a lot. It was just great working with companies that were start of between two to ten people. A lot of the challenges they face in getting off the ground, getting a product out the door, figuring out the online marketing strategy and how they do customer acquisition. They may be starting to get into revenue generating and profit optimization. Those types of exercises were really fun. They were mentally stimulating and challenging. They were based on some things that I think I had a little bit of experience in and for better or for worse that made it easy for me to get involved as an investor who was helping them solve some of their product and marketing problems. After doing that kind in an amateur profession on the side for the last three or four years, I just found like I really was less interested in going back and doing my own start up and more interested in helping additional start ups. So, probably about a year and a half ago, I started thinking about how I could do that in a more regular basis, and then additionally, I had been looking at doing my own fund and then the opportunity with The Founders Fund came along. It really ended up being a great fit.

Adrian Bye: People who are listening to the interview or reading this; they're going to be interested and want to know how do they get funded? That's the first thing everyone's going to ask, Dude, you got money to hand out...

Dave McClure: Well, it's true, I try to make myself accessible but I think the thing you find is as an early stage investor, you probably get more inquiries than any other type of later stage investor. So, you have less capital to work with but you get more inbound requests than anyone. So, really fighting a battle with email and other types of request is always an interesting task. But I do think the one thing that has been really cool for me is, and people always sort of say this all the time, but you source deals through your network and through people that you know. Part of the reason that I think I use a lot of social networking tools and environments like Facebook and Twitter and LinkedIn and other environments, it allows you to extend your reach in very interesting ways, and there is no way that I can keep up with the level of volume... most traditional VC firms, the logic is more like they look at a thousand deals, talk to a hundred and do ten per year. That's a very volume intensive review and analysis type of story. Nothing against that approach. I think that definitely yields pretty good results, assuming that your filter is tight, but for me, the story has really been, I basically

have a pretty extensive network of friends who are either engineering types or marketing types, you know, people and product. In a lot of ways I use them as a proxy. My process ends up being I probably don't look at anywhere near a thousand deals a year. I probably look personally at maybe a hundred or so, maybe two hundred or something like that. But the interesting thing I would say my extended network probably looks at ten thousand deals a year. Through the process of them recommending and filtering stuff to me, particularly when I get a deal that's recommended from two trusted sources, and in many cases three is the magic number, when I see a deal that's been recommended independently from three different people that I know I sort of wake up and pay attention. It sounds like a very sort of passive and uninvolved process, it's a little strange, but at the same time I think I'm sort of using the crowd as a way to source deals.

Adrian Bye: You're using social proof from the crowd. So, you're letting your friends who you trust vote. That's a little bit like Ron Conway does it, isn't it?

Dave McClure: Yes and it's funny that you bring him up. I would say he is one of the people that would probably be most adept at using those types of techniques and Ron is certainly an amazing guy, I wouldn't say he is innately a technology focus guy, which is strange to say. I mean he came out of a sales background at Intel, I believe. Very savvy and smart guy but I think he is more adept at understanding how people operate than how technologies operate necessarily.



Adrian Bye: He's the guy who doesn't use email, right?

Dave McClure: He is very email. He'll return emails quite quickly as a matter of fact. So, I think people tend to judge him as not being as technically sophisticated maybe as the type of other angel investors that you expect, but at the same time he is savvy in ways that are probably more interesting and more unique than most people would ever come up with. So, he is pretty much the original person of that technique of being very, very aggressive with lots of small bets and there are other people I think who sort of emulated that pattern as well. Josh Kopelman at First Round Capital, Paul Graham now with Y Combinator, Jeff Clavier with his fund, and a few other people where they've been very nimble and very, I would say, quick to write a small check and then continue to follow it up with more effort as the business grows. But I would say my process is not to have some huge investment pieces and a bunch of associates to analyze deals and decide okay this is the best most optimal deal. It's really a process of using a trusted network of people that I am familiar with who have sort of given something like a thumb's up. It's almost zen-like in a way that once I've sort of heard a company name from two different people, and certainly from three different people, that's when I start to zero in.

Adrian Bye: So it's the referrals that's what you're looking for and multiple referrals from people within your network?

Dave McClure: Yes, and so it's a weird thing to say get to know someone that I know and convince them that you've got a cool company but that's certainly a part of it. The other thing...

Adrian Bye: Now, you're putting it on me because I know you a little bit, now you're going to be hitting me up. That's not fair.

Dave McClure: Exactly. Exactly. Well it's just impossible to manage the amount of inbound requests that you get. I'm certainly always happy to sit down and take a look at stuff with people but you know it is.

Adrian Bye: I'm happy to review stuff too but obviously most people know when they come and ask on stuff like this like the answers you've got to expect the answer to be no or maybe we're going to look at it, or maybe there's something there, but...

Dave McClure: Well the answer is never no. It's always maybe. Or that's interesting we'll talk to you later, but the thing that made the difference for me is that I started doing these talks and presentations around start up matrix a couple of years ago, in particular, one presentation that I did up in Seattle one time that was sort of a five-minute video that I ended up calling start up metrics for pirates had a couple of slide presentation was really this five step methodology for analyzing how your different stages in business work and how to break up the products and marketing efforts into those areas. That's really two things: one is it's given people a language in a way that sort of talk about their business that I'm already familiar with. It also gives me a sense that they kind of understand the perspective that I'm coming at them and how I think about their businesses. So, for a lot of ways that's kind of given me an extended presence on the web for them to say, well, first thing I talk about when people come to me is like, well, have you looked at any of my presentations and do you understand what the approach is? If they say no, I say great, go check out those presentations, if you don't think I'm crazy then come back to me after you've read them. But these days, a lot of people that I talk to, I don't want to say they're regurgitating my mantras right back at me but they understand the framework that I laid out and it just makes it a lot easier and quick to evaluate how those businesses might operate. So, for me that actually helped quite a bit, and again I may not have as large amount of time as other firms that are evaluating a lot of stuff, but I kind of see stuff in a framework and a language that I already understand and they have already sort of put their businesses into that framework.

Adrian Bye: I've seen that you got those out there, but I've not looked at it.

Dave McClure: More recently I did a presentation on how to pitch to a VC that is maybe not safe for work consumption but a lot of people started to use that as a template pitch act. So, between start up metrics for pirates and that standard on how to pitch to a VC makes it easier for me to consume more information quickly from these start ups.

Adrian Bye: We had a funny thing that happened on Facebook. I think it was only a couple days ago where you put up a really cute picture of your kids and one of them was reluctantly giving some cake to the other kid and you titled it, the Reluctant Share. It was just a great photo. You've got very cute kids and you could really see that your daughter, she did not want to give that cake to her brother. Then I came along, be a smart ass and write under that She is a future VC in training or something. I was laughing my ass about that. I felt kind of bad about it afterwards because I know that there's a lot of people in your network that would see that. You made an interesting comment responding to that. I've not worked with investors I'm interested in your

response on that. There is obviously the term vulture investors, it can be like the PayPal situation where the investors end up making a lot of money and not the entrepreneurs. What are your thoughts on the reluctant share and the value there, especially in today's environment where things are changing?

Dave McClure: Well, I think I can't remember the exact comment I made, it was something like VCs shouldn't be reluctant about sharing they should actually be rather generous about sharing. Was it something like that?

Adrian Bye: Yes, you said something like that.

Dave McClure: Yes, but I think I have maybe a different philosophy about how a venture capital is changing and what the philosophy should be there. People talk about the downturn in the financial market and how that's affected things. People sort of presume that there is this downturn in the Internet market. I actually am aggressively optimistic there. I don't really think that much of the financial downturn that's happening in the mortgage markets and financial services and other areas as rather huge. I don't really think there's huge an impact on Internet businesses. The reason I kind of say that is because for the most part, internet businesses are not capital intensive and so we don't deal with a lot of debt, which is what caused a lot of problems in many of the other more traditional markets. At the same time there is a lot of capital already raised. The one thing that I think has been really a big issue for the VC community is they're loaded partners, people who invest in VC funds have had a pretty substantial upheaval in their world, and so a lot of pension funds and institutions that invest in VCs have found their net worth or their fund values have gone down by a third if not more than a third over the last year. What that has caused is also not just a different sort of way to look about how Venture Capital is performing but it sort of changed their asset allocations and also sort of changed their philosophy about how much risk they should be taking in these other markets. As a result of that, really I would say, we're in quite a bit of an upheaval in the VC world, where I don't think it's actually any over statement to say that maybe one third of the existing VC community today won't be around in two or three years.

Adrian Bye: So, how do you fit into that environment where the cost of barrier entries for starting internet companies is so low now. Do we need you?

Dave McClure: No. I think that's actually the point. I don't think that most VCs are relevant as investors in the Internet space. So, I don't think there needs to be as much investment in any company. Traditionally, historically, this maybe within ten to fifty million dollars that you put into companies that might eventually get acquired to go public and for a lot of software companies previously where that was marketing intensive or production intensive or there were large capex costs in either hardware companies or chip companies. If you could track that to sort of Internet companies these days, certainly in the last five years if not ten years, the cost of a lot of open source software has come down dramatically. You're not paying a lot for database software. You're not paying a lot for web server software and other almost free or close to free components, and for the most part your cost structure is really head count, and to a lesser extent, internet marketing cost for acquisition. But you can build a lot of companies these days for under two to five million in capital. You can certainly get the product built for a lot less than that. So, it's actually rather challenging in many ways to put more than ten million dollars to work for a lot of these Internet businesses. No question, still a lot of businesses that once they take off to consume and could use more than that. But I think it's really changed how the VCs are relevant to the start up community. If you look at the way historically VCs were involved, at least back in the 60's and 70's and 80's, they kind of came out of the chip and the hardware and the software businesses, and people who had been successful there moved into the VC business. So a lot of cases, the people who are VC investors were experienced to operate as they came out of that industry. An interesting thing happened in the 80's and 90's was they became this more..

Adrian Bye: You know, Ron Conway totally fits that, he came out of Intel and as an angel investor...that totally reflects what you're saying...

Dave McClure: In the 80's and 90's, a lot of folks came into the profession that were more traditional, finance and money management folks. They were people who had MBAs. They came out of the East Coast financial services world. Not to say that that's exclusively the type of folks that happened but they were more about money based operations and scaling businesses. So, a lot of the expertise that they brought to the table was more in balance sheet restructuring, organizational dynamics and how they would grow the company, sort of looking at how they got the companies to the basic level of break even and then profitability. It was sort of more engineering a company from looking at the spreadsheet or looking at an org chart than it was looking at the spec or looking at the sort of user interface design. Then something interesting happened which was the Internet came along and probably somewhere around 1995 or at least the late 90's, a lot of the customer acquisition methods stopped being enterprise sales focused and stopped being offline marketing campaign focused. It started being more about Internet distribution via email, via search, via social networks, via viral marketing. What's really unique now...I make this statement as somebody who has been a former engineer



and developer, the scarce resource and skill set that in most Internet businesses, while it's certainly important that engineering and programming talent is very important, the scarce resources is really around user interface design, and around Internet based marketing skills. It's strange to say that but for at least consumer internet businesses and maybe businesses that are focused on small business, long tail business the cost of customer acquisition,

the techniques of customer acquisition, the cost are down, the techniques are more advanced. A lot of ways that companies are either made or broken have to do with how the customer experiences the product from user interface standpoint, and how many people experience it from an Internet marketing standpoint. The strange thing is when you start having businesses that succeed or fail based on a lot of these user interface design and a lot of Internet marketing techniques, there's just not that many people who've been around building these businesses who are in the investment community. It's started to change but the people who are successful at doing a lot of that Internet customer acquisition or search based acquisition probably got rich in the late 90's and early 2000's and some of them started doing a little bit of angel investing, maybe got hurt in the downturn. A few of them made it into the professional VC investments community. So, what I would argue today is that if you're a start up looking for an investor you don't need a lot of money. So, the angel investor community has magnified itself in value. There's a lot more people from the angel investment community that are in the market. There's less capital necessary from the VC community, and more importantly, it's not just the capital that's really the critical factor for start ups to decide but what type of skills

are coming into the table with those investors. So, you see investors, it's just like Jeff Clavier in First Round Capital, and maybe Ron and Baseline and a few others have all had a lot of experience doing these Internet marketing businesses and as a start up, you'll probably going to get better terms from the Internet, from an angel investor or a small VC and then you're going to get better expertise from somebody who's come out of one of this Internet marketing business.

Adrian Bye: Dave, I got to have to jump in because I know you got to have a call at the end of this call, and there's this important topic that we haven't covered yet and that's GeeksOnAPlane. Now, by the time people are looking at this interview we're actually going to be on the plane because I'm flying out from the Caribbean to go out to Japan and China with you. You wanted to talk a little bit about the trip and the idea behind?

Dave McClure: Sure. Well, and again I would say this has been more of an independent dream of mine, was to get a bunch of people together who were all sort of geeky and go to a trip to places that we don't normally get to. My wife is Japanese and I have the opportunity to go over to Tokyo and visit our family, our in-laws over there pretty much every year. That was always really fascinating to me. I got the chance to meet some start ups and entrepreneurs in Tokyo to see what they were doing. But I've always wanted to travel a little bit more and see parts of Asia, and eventually hopefully parts of India. In the last year, I've also got to see some places in Europe as well. So, there's always people who are coming over to the Valley from their local environment and really coming to the Valley as this kind of Mecca place where they get to find out about how Silicon Valley software start ups and internet businesses get run. But I've always thought it would be interesting to go the other way and have people from here go to other geographies and see what the entrepreneurship culture is like over there, what the funding environments are like, what the actual successful businesses are like. So, this whole idea for GeeksOnAPlane was really almost like a traveling road show of sorts where we could talk a little bit about here's the types of businesses and the Internet platforms and the social networking platforms that have been successful in the States, and the funding environment and models that have come up out of Silicon Valley, but also to learn about what's happening in Japan, what's happening in China, and in the future, maybe Korea and other geographies as well, and kind of get a survey of the investment climate, a survey of the start up opportunity and markets, and hear from some successful entrepreneurs, now that they've actually accomplished quite significant things in those geographies as well. So, it's really more of a cultural exchange opportunity around entrepreneurship, and both a great way for us to kind of talk about what happened in Silicon Valley and learn what happens in these other countries. In particular, in the gaming and mobile platforms, and maybe social networking platforms. There's a lot of interesting stuff that's been happening out of the Asian geographies and start up businesses there that I think the US could learn from.

Adrian Bye: Man, it looks like you had tremendous response to the trip.

Dave McClure: We have. I must say when I first was getting it together I would have been happy if we had five or ten people to get on board. But we've actually had over thirty people sign up to do it and probably if we have a little bit longer, I got a ton of comments from people who said just a little bit more planning and notice, they would have also come with us. So, we'll probably end up doing it again. I've already started thinking about doing a trip to Europe in the fall and probably Southeast Asia and India next spring.

Adrian Bye: It's going to be an ongoing series is it? GeeksOnAPlane to all over the place.

Dave McClure: I hope so. I think the thing about a lot of people here is they might not explore those environments independently but within a comfort zone of some other geeks that they're familiar with, and also within the comfort zone of having people on the ground, in each of those geographies that they can get

to know, I think becomes a lot more approachable for people to go out and see places like Beijing, Shanghai and Tokyo that they might not get to on their own.

Adrian Bye: The thing I didn't get which you kind of help me understand in the email is that, it's actually, not just going into the places but it's also the time on the plane, you get to hang out with everyone on the plane, too.

Dave McClure: Yes. I do think we'll probably not get a lot of sleep for this whole trip. But probably one of the best parts of the trip itself is the opportunity to spend traveling with people and really get to know them in sort of this traveling caravan of craziness. My only regret is we won't have Internet access on the plane at least this time around, but I'm absolutely trying to make sure that that happens once we have the next one. So, we will be a live traveling blogging social media experiment. It's great. We've gotten support from both TechCrunch and a bunch of other places that are going to help us promote the effort that we're doing. So, my goal is nothing less than to make everyone forget that Robert Scoble ever existed for ten days.

Adrian Bye: I don't think that's possible but maybe we'll achieve it. Anything you want to add in closing.

Dave McClure: Just a couple of things that we didn't cover that I spent a lot of time on. The start up to start up events that I've been putting the other the last year with a few friends and also a new effort that we're getting together called Finance for Founders. Both of those are really attempts to kind of use the existing knowledge of the start up community, both in terms of product and technology ideas, business and marketing ideas, and then maybe finance and legal structure, and really make that a more regular process for the new folks and the rookies who are building their businesses to get to know each other. One thing about Silicon Valley, it has always been very open and people are quite willing to share sort of what's worked with them and what their success is and what their failures have been, but everybody's always been so busy doing their own start ups, I don't know if there is much of this structured framework for people to understand more about what's going on there. I think in the last couple of years, that's starting to fill in. A few years back, Guy Kawasaki and Garage.com, were to do a lot of things around entrepreneurial education and then a few other environments that I've been involved with, both S space and ST4, have done that. But now I think you've got more professionally focused efforts. Sometimes they are investor driven, where really we are trying to retool and streamline the process of creating businesses. I think I wouldn't say we are scientific by any means yet, but we are trying to get a little bit more regular and rigorous in our process. So, things like a lot of methodologies that Eric Ries is talking about with lean start ups, some techniques that Andrew Chen has talked about on his blog, a few other VCs that I think are really intelligent people who are now again starting to think about how do I optimize the process of building a business. Those topics are things that I care a lot about and spend a lot of time thinking about. So, the start up metrics pirate talk and the other conferences that we've been putting together, it's really around building the craft of entrepreneurship and making that a business in itself and an education in itself.

Adrian Bye: Okay. Well Dave thanks very much.

Dave McClure: Thanks for your time Adrian. Thanks for having me.