

Lecture 13 - How to be a Great Founder (Reid Hoffman)

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SUMMARY

The discussion focuses on the qualities and skills that define great founders, challenging the myth of the "superhuman" entrepreneur. It emphasizes the importance of teamwork, adaptability, and the ability to navigate uncertainty while maintaining a clear vision.

- *Great founders are not necessarily "superhuman" but often have specific strengths and a diverse skill set within a team.*
- *Co-founding teams of two or three are generally more effective than solo founders due to complementary skills and shared responsibilities.*
- *Location matters; founders should seek networks that align with their business needs, as not all markets thrive in Silicon Valley.*
- *Being contrarian is valuable, but it requires understanding the perspectives of informed critics and having insights that others may overlook.*
- *Founders must balance persistence with flexibility, knowing when to pivot based on data and market feedback.*
- *Effective founders navigate paradoxes, such as focusing on both short-term tasks and long-term visions, while also managing risks intelligently.*
- *Building a strong co-founding relationship involves trust, open communication, and addressing potential conflicts early on.*

Thank you Sam. So when I looked through the syllabus of this class and thought about what I, I could possibly add that would be useful in addition to the various skills. One of the things that I had been thinking about had been, how do you think about yourself as founder, how do you think about what the skill set is? And what are the things that you should be thinking about in terms of am I ready, how do I get ready, is it the right thing for me?

These sorts of things. So let's start with the perception of what a great founder is. And classically, you know, this tends to be Steve Jobs, Bill Gates, Elon Musk, Mark Zuckerberg, Jeff Bezos. And it's an image of founder as superwoman or superman right, who is, has this like

panopticon of skills, and I can use the word panopticon because I'm here at Stanford. But the, it's, it's things like, I know how to do product market fit.

I'm great at product, I'm great at strategy, I'm great at management, I can fundraise. I can do all of these different skills. And a part of what you're looking for in a great founder, in the kind of theory of the founder as superperson, is I'm looking for someone who is awesome at all these things. They are, they are, they are well rounded, they are diverse, they can bat on all skills. And you know, part of how I found this kind of emphasized in my own, the beginning of my own entrepreneurial journey, is I remember reading an article that said, you know, Bill Gates, who is smarter than Einstein, right?

And you're like, well look, Bill Gates is really smart and he's very accomplished. But I'm not quite sure smarter than Einstein is actually a phrase that even Bill would want to be actually next to. And it's partially because I think it's this image of founder as superperson, which is that a great founder is someone who can do anything, you know, jump over tall tall buildings in a single bound, you know, all of these sorts of things.

And the reality, right, is the founder is someone who deals with a ton of different headaches. And no one is universally super powered. Generally speaking, you hope to have a couple of super powers. Some things that are unique edge to you. Some things that are unique to the problem that you are trying to solve. Some things that may help you give an edge because actually competitive differentiation and competitive edge is super important. But but it's not it's not actually in fact a, a function of, of genius.

And matter of fact frequently

it's very hard to tell the difference between madness and genius, because usually it's the results that play out. And sometimes when you're dealing with uncertain environments, you may even be genius and later be thought to be a mad person. Or you may be a mad person and you turn out to be lucky. And you're later thought to be a genius. So it's, it's actually a kind of challenging set of, like, how do you think about, you know, these sets, you know, what is the whole set of skills and what us mere mortals, you know, come into this kind of battle what is the right way to think about it?

And so you know, when I thought about this question of how is one a great founder. You know, part of what you get to is. Oh, and actually, this is probably the slide that for people on this, this may have been a suboptimal choice for people on video, but it's like, these are all skills that are super important. Right? These are all things that you say, well, okay, this is, this is really, really important to do and you must in fact actually do this well, and it begins to look like a superhuman task.

And so what did, I decided to take a, a subset of these and focused on some of the, the interesting things to think about, what is it that actually makes a great founder? Because it's actually not that you score ten out of ten on all these, you know, you're, you're the entrepreneurial Olympiad. You, you are actually the best at all of these things. So let's start with team. So one way to kind of, I think, talk about exploding the kind of the myth of the super founder is that actually in fact usually it's best so have two or three people on a team rather than a solar founder.

Not to say solar founders don't actually play out and they can successfully. But most often, two or three people is actually in fact a much better, when I look at

these things as an investor, and I say, you know, what is a good composition of a project and a, and founders that are likely to succeed. It's usually there's two or three of them, and the reasons are, because for example we've already talked about the fact that there's this very broad set of skills.

There's this whole set of question about how you adapt your company in order to be successful, and if you actually have two or three founders, you have, you have different skills, you can compensate because, by the way, everyone has weaknesses. You can compensate for each other's weaknesses. You can in the diversity of problems that you encounter as a founder that you can actually attack them. So one of the things that I, I suggest when you, when you look at essentially a founding team is to have a real high preference for having co-founders, having a high degree of trust with those co-founders.

Because one of the things, by the way, part of the whole entrepreneurial thing is there's lots of ways to die. One of the ways to die is you get a year down the road with your co-founders and then you're going through a messy divorce. And that's a, that's a, that is not always but frequently fatal. And so and then also the diversity of the kind of tasks that you're trying to do. And actually. >> Okay, yes, I was about to say, that would be suboptimal from the viewpoint of being able to look at the slides.

The next thing is location. And so frequently I've heard, told to me, it's like oh, Silicon Valley aggregates all of this super talent, which it does. In terms of, like, what, what actually in fact, it's, it's, the reason why Silicon Valley startups are so successful is because all of these great people immigration, which is hugely important for, for talent and founders and everything else, you know, emigrate here. And that's part of the reason. Now, it's actually, if you think about it, from basic math, ne, even if you take something that, that Silicon Valley is super

strong at, which is essentially software skills in the last two decades.

Not all of the great software people move here. No, not all of 'em can move here. There are many of them in various other parts of the world. And, and so why do I put choice of location as one of the things it comes down to, thinking whether or not you're a great founder. Well, the reason is, is because what fo, great founders do is seek the networks that will be essential to their problem and their task.

And they realize that it isn't just about, like, kind of like, I am super person. I can do this anywhere. I can do this, you know, in, you know, the Antarctic, et cetera. It's, in order to be successful I have to go to where the strongest networks are for the particular kind of problem or the particular kind of thing that I'm doing. And Silicon Valley, by the way, is super good at some kind of tasks. Some places that you essentially try to solve certain kinds of problems.

But it's not good at all of them. Let me take, you know, kind of two examples. So one is Groupon. I don't think Groupon could've ever been founded here. Even though it's a software product, it actually even generates a network. Which, you know, obviously a lot of the great networks are here and and uses a a kind of Internet technology as a mobile product and everything else, all of which we have a lot of skills here in Silicon Valley and the networks are really good for this.

One of the things that's central for GroupOn for it's early days was having massive sales forces, and massive sales forces strengths and weaknesses of networks tend to

go together. Silicon Valley tends to be pretty adverse to plans that involve, like oh, we're going to rent a 25 story building and in 20 of those stories we're going to have floors of sales people, and that's how we're going to get out thing going. That kind of plan here tends to not get a lot of interest, tends to get a lot of criticism, tends to not have talent po-, aggregate to it, tends to have financiers talk up of things like capital efficiency and network effects and other kinds of things that are, that are key here.

And so it's actually not a surprise that actually, in fact, Groupon require, was required to be actually in Chicago, which is really good at this. As a way of actually kind of getting going, and showing that even software startups can be in other places. But even if you begin to think about you say, okay, well what kinds of, of, of you know, other kinds of startups would someone be an idiot to move here to do. Think of someone were doing a fashion start up.

Not fashion a la Poshmark which is you know, a mobile marketplace et cetera which are a bunch of things that are good here. But like I'm develop, designing a new fashion company and I'm going to come to silicon valley to do it. That's actually not such a great idea. Right not saying the fashion company might be a great idea but you want the networks that support what you're doing. And so part of the reason why where I, where I locate my startup is a test for thinking about am I a great founder is because part of what happens when you're actually founding a company is you're going, I will go to where it's successful to this to do.

To, to, to be because the metaphor that I frequently use for entrepreneurship is jumping off a cliff and assembling an airplane on the way down, and the reason is because it's hard, it has a quasi-mortal exit by which you're default dead, and so you're taking every possible

chance to actually win. And so great founders go, look, I'll move to what the network is and that network is, you know, this graphic is frequently Silicon Valley. But for, for text startups, for mobile, for networks, for marketplaces, you know, this is a really good place to do it.

For a bunch of other things you should think about whether or not it's a different location. Now here's something that, you know, it's very in vogue, all right, very conventional, to say you're contrarian these days. And so, let's talk a little bit about what contrarianness actually in fact is. so, it's actually pretty easy to be contrarian. It's hard to be contrarian and right. And in particular, when you're thinking about, is my idea contrarian or contrarian enough.

It's how does a smart person actually disagree with me right? Is, because if you can't think of a smart person- Who isn't like ignorant or just crazy or isn't, but is a smart person who is somewhat expert in that so thinks that your idea has some serious challenges, then it actually isn't contrarian. Right? So contrarian, and contrarian is also is always, actually this is one of the things that Sam and I talked about at startup school is contrarian is actually relative to an audience, right?

So. When you want to be, when you're, when you're thinking about contrarian in terms of, like a really good contrarian idea is like okay, what would other, say it's consumer Internet, good consumer Internet people think is actually in fact not yet a good idea. And part of what you think about contrarian is to say, okay, what's the way that what do I know that other people don't know? Because it isn't just that I'm brilliant and other people aren't and that's reason why contrarian thing is right.

That's a very bad test. Right, it happened to be true. Of course, lightening could also strike you in the field. You know, so, think a lot about, like, what is that I know that other people don't know? So, for example, in the very early days of LinkedIn, part of what I advised all founders to do was go talk to every smart person who will talk to you and give you feedback. So, at LinkedIn I walked around and said here's my idea, what do you think?

Two thirds or more of my network, including some of the very, very smart people, all thought I was nuts. And they reason why they thought I was nuts was because they said well look, it's a network product, it's only valuable with a bunch of people in it, first person no value, invite second person, second person first person, no value for either of them, they already know each other. When do you, when do you actually begin to deliver on your use case.

Which is like 500k to a million people. Right. And so, you're never going to get to size, you're never going to grow. Now what I knew that the critique, the critics didn't know. Was that I could think of a set of different ways by which people could say, look it's pretty easy to say, look I believe in the vision of this, or I think it's interesting, or I think a product like this should exist, or I'm willing to play around with it and I can use, leverage, those sets of interests to grow the network, to get to enough size that you could begin to deliver on the value propositions in which LinkedIn had.

And that was the specific thing that I knew that the critics weren't thinking about. And so when you think about being contrarian, you have to think about how is it that smart people disagree with me? They disagree with me from a position of intelligence right. And there's something that I know that they don't know that actually in fact will play out to be true. Now, in this case, in general as a, as a founder it's good to be contrarian in the real

sense and right.

Now the other last part on the contrariness is to think about there's a lot of different ways to be contrarian. So for example, a frequent one will be is like, oh yeah, that's a good small idea but actually not so small it's large. Or you know, actually in fact you can assemble the talent or while most consumer internet start ups tend to be like for example, this is another LinkedIn example tend to be only successful through rocket ships.

Actually a gradual compounding curve can actually be very, very valuable. LinkedIn never had its rocket ship moment. It was, it was kind of compound year by year. But that in the consumer internet, tends to be atypical to the pattern. So here you begin to get to a bunch of sorts of problems that, essentially founders run into, which is like, well should I be doing the work or should be recruiting people and delegating the work. And classically the answer to this is, actually in fact you need to do both.

Right, and, in fact, not only do you need to do both, you need to do sometimes one at 100% and sometimes the other one at 100%. And sometimes, even though this is not so good at math, both at 100%. And so what you'll see is, this is actually classic when you begin thinking about what is a great founder? Is you navigate what is apparent paradoxes? So another one that I frequently talk about is, you got to be both flexible and persistent.

And the reason for this is, entrepreneurs are frequently given the advice to, you know, have a vision. Stay firm against adversity. You know, realize that you, you have this vision that is contrarian to what other people think, and just ho, stay on track, get through the difficult times, and get there. The other piece of advice

given with equal vigor is, listen to data, listen to customers. pivot.

Be flexible! Part of the thing this comes out to meaning in terms of being a great founder is to say well, when should I be persistent, when should I be flexible?

And the, the vehicle that I most often use for this is you should have on a project you're doing, like a company, an investment thesis that essentially says why you think possibly contrarian. Why you think this is a potentially good idea. It should include what you know that you think other people don't know and then, as you're going into the battlefield, you go is, you know, am I in fact increasing confidence in my investment pieces or decreasing confidence in my investment pieces?

Because I've got increasing confidence, then oh, stay on track, you know, be persistent. And by the way, sometimes even with adversity, you're confidence can, can increase. If it's decreasing, that doesn't mean jump out. PayPal, LinkedIn, Airbnb, a whole bunch of startups I've been I've been a part of have had months where you were like, oh my God this, why would did we ever think this was a good idea it was kind of a valley of the shadows moment.

So like example, in PayPal it was, you know, August 2000 we were burning \$12 million in one month, the expense curve was exponentiating, we had no revenue, decrease in confidence, however we say okay what we do in order to fix that, and that gives you your immediate action plan. Another one is, should you have belief or should you have fear? Right, should you have, you know, should you essentially go well no I have this vision of the way the world should be and I should ignore everything else and I should just go at that.

Well again, part of what being a great founder is, is being both able to hold the belief, to think about what it is you want to be doing and want to, want to be going. But also be smart enough that you're essentially listening to criticism, negative feedback, competitive entries, where you're kind of going okay, is this changing my investment thesis? Is this changing what I'm planning on doing? It doesn't mean you lose confidence. You have the confidence, but you also essentially have the peril.

Again, in this kind of thing of how do you put these two things together, should I focus internally, build the product, ignore the world, ignore competitors etc., or should I focus externally? Should I be recruiting? Should I be meeting people? Should I be gathering network intelligence? Again, the answer is both. And the reason why I'm focusing on these kind of it's, it's both rather than either or, is because part of what makes a great founder is the ability to, to, to be flexible across these lines.

To sometimes be 90% one way, sometimes be 80% the other way. Be executing the judgement on what is the current problem look like. How is it that when I'm trying to solve this, that I should say, this is what we should be doing and how should I be dividing the work? And part of, when you think about these things, and you just say like this is another one that's kind of classic is people say, well, I'm completely motivated by data.

It's what customers say at the user groups. You know? I've, a lot of entrepreneurial methodologies lean, other kinds of things are talked about is like, gather the data, be guided on the data. Well actually in fact, data only exists within a framework of the vision that you're building to a hypothesis of where you're moving to. And the data can even be

negative and you can think, well actually in fact, this negative data means that I need to change, or alter the way that I'm thinking about something.

But I actually keep on a specific vision about what I'm doing. And, and by the way, sometimes even when you have that specific vision, you don't necessarily actually, you never end up at that big vision that you were thinking about. So for example, you know, at PayPal we distributed these t-shirts that said the new global world currency, right? Well actually in fact one of the, the and I, and I know Peter's been here. One of the jokes I told Peter is like well actually we do have this new world global currency.

What we're trading in is dollars. You may have heard of it, it's existed for a while. Right? We're essentially a master merchant for that. now, course this message is what may be happening with BitCoin although, you know, is a whole other topic there. However, the key thing is that that vision of saying, we're creating a kind of a universal network that allows anyone to, to pay, anyone to become a merchant. To bring the electronics into the speed of commerce at any business that, that is being transacted.

That vision kept at true north by, we say well, first we think we're going to have a banking model. Then we think we're going to have, you know, a, a, a debt model. Oh no, we're actually going to have a master merchant model. And how does that actually play out? So you're always combining the vision and the data. And the data's within the framework of, of a vision. And sometimes, of course, what you learn changes your vision.

Now, this is one of the ones I actually think we, we, we saved this special picture for one of the ones that I

actually think is quite key. Is that normally entrepreneurs, founders, are thought about as having like the risk takers, right? They're, they're, they, they, whereas everyone else cowers in fear from this notion of risk they boldly go out. Now, that's true. You have to be a risk taker. You have to be thinking about how do I make a really coherent bet on risk because in fact, the only really big opportunities, the only contrarian opportunities that smart people disagree with you on happen to be ones that have risk associated with them.

On the other hand, part of the skill set that when you're beginning to apply how you think about risks as an entrepreneur is you're beginning to think about like how do I take intelligent risks. How do I take a focused risk that if I'm right about that one thing then a bunch of other things break my way. And once I start doing that, I try to figure out how to make my, my, on shot possibility as high as possible eg how do I minimize other risks?

How do I essentially take this risk in an intelligent way that doesn't just go oh yeah risk. Risk to the wind. Who cares? But let's go. And so this kind of combines that, you know, this, this image which I think is the best of the, of the, of, of the images we found for this yet, is kind of the sense of how to think about. Now, back to what I was saying in terms of having an investment thesis, part of having an investment thesis is, you chart it out, it's kind of a list of bullets.

You say, like for example, in early LinkedIn it was like look everyone is actually going to be benefited by public professional network. Everyone will realize including companies that it's better to have it play out this way the initial set of adoption will come from essentially people who were like visualize the role, thus were willing to play with it, and then eventually the mass market will come on as they begin to have a network that is already delivering a value

proposition to them.

That's what kind of an investment thesis can look like and then, you know, you've got economics like initial recruiting and then, and then broadening and other things. You have that investment thesis and you say, is my investment thesis increasing or decreasing in confidence? Do I think that the data I get from the market, when I talk to smart people, how does that, how does that change my confidence in it? And this is actually how you essentially minimize risk.

So, for example, very early, very early days in PayPal the, part of what happened is, they said, okay well, we're going to do cash on mobile phones. We'll do cash on Palm Pilots because it's really easy. We actually realized that cash on Palm Pilots wouldn't work even before we launched the product. Because basically what happened is, I went in and said to Max and Peter. I said look here's our challenge, our challenge is, we're probably doesn't remember what Palm Pilot's are.

They were like, like early PDAs And so yeah we lived in what was Palm Pilot central. And the whole use case case was splitting dinner tab. And, how many people, everyone at the table would have a PalmPilot Zero to one in every single restaurant. So, you could even just by thinking it through, you realize that the direction you're on is going to hit a minefield and you need to pivot, and that's when Max Legend came up with the idea of saying, actually in fact we could synch by emails, we could have email payments as backbone of this, and we were like oh, that's a good idea.

And of course, that's what the whole thing kind of pivoted into. And that's part of thinking

through minimizing the risks, as you're actually executing. Here's another one that's kind of classic. Which is, well, should I have this long term vision? Or should I be solving local, near term problems? And again, the answer is both. It's these paradoxes and the question is, is you jump between them. You should always have a long term vision in mind because if you actually completely lose your, your directions eventually you'll find yourself in some field there's not a good path out of, but if you're not focused on solving the problem that's immediately in front of you, you're hosed.

Right. And so part of the the question about how you put these things together is you say, okay, short term what's the thing I need to be doing today? Have I made progress today? have I made progress this week? But is it largely on path? So, I'll give you an example of how this plays out in terms of financing or in terms of strategy. So people frequently think product strategy is fundamental to how, start-ups. Like I have a have a product idea, that's a thing, I'm a founder.

Actually in fact, the next level down on strategy is usually a product distribution. Whether it's consumer Internet or or enterprise or anything else. Because actually in fact no matter how good your product is, if it doesn't get to customers you're hosed. So usually you have to have product distribution as more fundamental than the actually what the product is. And the one below it is financing. And the reason why it's financing is if you run out of money and the whole effort goes away, even if you have a really good idea it doesn't work.

So frequently when you're executing on a good strategy you're actually in fact, when I'm raising money, this fundraising, I'm thinking about the next fundraising. I'm thinking about how I'm set up for it, I'm establishing relationships that would be key to that and I'm, I'm not executing like oh, the only thing that matters is I get to the next, is, is get to the next fundraising because you have this business that

you're building. But I am thinking that as a core strategy in terms of how I'm executing and frequently you're thinking about okay, how does my product distribution work such that the financing works well?

And that's kind of how you architect these things together. So how do you know if you might be a great founder? Well, it's, you should have some superpowers. It's generally speaking in software useful to be a good product person. It's useful to have good skills about kind of leadership of bringing networks in, of persuading people. And it's useful to be able to, and this is kind of the most fundamental, is recognize whether or not you're on track or not.

To have both that kind of belief, but also paranoia about, am I tracking against my investment thesis? And when you do that the right way, and you're learning, and you're assembling people, and you're assembling networks around you, that's generally speaking, how you end up being a great founder. Now, classically and I deliberately put up five white men, male pictures. It's classically, you have a kind of a these are the iconic founders. But in fact, founders can be very diverse, they can be extraordinarily talented at different areas because there's different kinds of entrepreneurial companies, there's different kinds of problems they're trying to solve.

And I don't just mean diversity in terms of classic, you know, kind of gender, race, et cetera. I, diversity in age, diversity in experience. You know, Jack Baugh was a, a, was a, a teacher before he got into this. That's the kind of thing that you can, that you should think about. And so the, the question is, is how you cross uneven ground. How you assemble networks around you. How you get people to assemble this, it's a constantly changing problem to face when you are trying to found a company.

And so, I think that the thing that I was trying to get people to think about with this is to say, there's not one skill set. There's an ability to learn and adapt, an ability to constantly have a vision that's driving you, but to be taking input from all sources and then to be creating networks around you, and that's essentially what makes a great founder. And your ability to do that while crossing uneven ground in a fog.

Which is kind of the, the, the, the way that entrepreneurs, because you don't really know like, did you always know this was going to work? No.

Unless you are crazy. Right. Sometimes crazy works. So with that I will now go to a few questions. But it was kind of this mind set of founders. Which is kind of key. And if there's no ques, oh, here. >> I'm curious about how Nathan, how you targeted the earlier, or you selected the guys for getting the right doctors who knew would strengthen your investment thesis to really help it take off because it seems like every start up is faced with that.

>> Yep.

>> That same challenge. >> So one of the really fundamental things is to, is to think about product distribution as key. And for LinkedIn, we had a couple things going for us. So one, the web was boring in 2003. That basically what happened is everyone had thought the consumer net was over. And so people were doing clean tag and enterprise software and everything else. It's a much harder problem now. because everyone thinks the Internet and mobile is interesting.

And so breaking through the noise is really key. So the strategy we use wouldn't work. We just set up, sent out some invitations to a group of people and then tuned the mechanism to have, and did PR to get people. Like one of the decisions we

made early that was right was to say should we only allow it as invite only? Or should we allow cold sign ups? The reason we should allow cold sign ups is because the people who are super enthusiastic about this weren't necessarily the people you know, so they would sign up and spread it.

That sort of thing were all the kind of decisions we made. Now that challenge is much harder because the challenge when you think about product distribution is, it's how are you competing for potential customers' or potential members time and what do they think, what do they have to believe in. Back in 2003 it was like well, a professional network. That's potentially a good idea, what the hell. I'll play with that. There's not a lot of other things for me to look at.

Today, there's tons of things and so your strategy today, when you're looking at product distribution, has to be, what is my really decisive edge? What is the hack that I know that other people don't know? >> Someone come to you, how do you tell >> So how do I know someone's a good founder or not? well, it's not I'm a huge believer in references.

Usually I only ever, actually no. 100% of the time in this case, I only meet with someone when they come to me through a reference. So one of the things, by the way is, the thing is I, after this I have to run off because I have a meeting I need to get to. If you want to actually get time and attention Lee, find a reference. It's not a pitch to using LinkedIn, it's a question of, this is how you sort out time.

You can find out, like Sam knows me. Lift up, throw Sam under the

bus. Right? Yes. And so a reference to me is in fact the way that I do this. And so for example, when I met with the AirBnB guys. Part of the reason why I could interrupt them two minutes into their pitch, and say, I'm going to make you an offer to invest. I want to hear the rest of the pitch, because I think what you're doing here is, is, is magical and awesome.

Was because I'd already had references on them. Like that was only two minutes, not even thirty minutes. Because I already knew about them before coming in. And by the way, by and large that's some version of that is true of most of the great industries. And it's that, it's that network that's really key. I think there was a question over here too. Here.

>> So would you consider it intensity of insight to be a strong signal for great founders.

Density of insight is a strong signal for great founders, can you say another sentence? >> Being able to distill a thesis out of or operate off a thesis. A deal of doubt to a concise sentence. >> Well, I would definitely say that the ability to say coherently what you're targeting and to articulate something. That isn't trying to boil the ocean or a Swiss army knife approach but is like one focus like look if we're right about this than it works, that is actually pretty important to be, to being able to judge a founder because if you don't have that level of, of clarity you're not going to be able to assemble the network behind you.

You're not going to be able to get investors, you're not going to get employees. You have to be able to articulate a very clear mission about what you're doing. And insight is helpful although, a little bit of this depends on the stage. It, it is always, if I find, I find myself attracted to founders who've analyzed the problem a good way, but, but frequently I've seen

great founders who do not present good analysis but have an instinct about what they're doing.

And so you more chart what kind of, what's going on around them. >> When Lincoln had like five years of like I guess Wrap up times, like what, what can be going to keep like doubling down the original >> Oh. So, how do I keep persistence when, because, actually, LinkedIn went through, you know, let's see, for those who remember. We were treated as the little alternative to Friendster, then to MySpace, then to Facebook.

Righ.
So, we had a lot of different, like we're the little tiny one next to these respective giants each at the time. Ultimately, for me, when I was thinking about LinkedIn. This gets back to the investment thesis as a mechanism. I continue to believe the action fact, the right economic system design for every individual's life and for organization's life is to have public professional profiles. That world is the way the world should be. Everyone is much better off with it.

And we are getting closer to that than everyone else. It may be that it hasn't taken off as fast as I'd like, it may be that the general world is going, oh this social stuff is really interesting. We don't.
Like, we could only get in the news in the Fall and the Summer of 2003 by saying we were Friendster but for business, which is completely, like, nonsensical once you begin to look at the thing. But it was like okay we'll cover you cause it's friends but for business.

And that was important to begin to get people to pay attention to us. And so the confidence was that

world I still have confidence believe that it should exist and no-one is getting closer to it than we. It's taking us maybe longer than I'd hoped to get there but that's okay. So. Sam? >> When you get it wrong, when you meet a fund that you think is going to be really good and. You know, seems to be a move between these opposing forces.

>> Yup.

>> And on paper it seems like they're going to go the distance. What is it that makes you get wrong about someone that looks good at first observation? >> Well to some degree you can only fully cross this kind of minefield by actually going and doing it, right? So you can be wrong about your hypothesis. The kinds of things that frequently get you wrong, get wrong or when you think that a person because they.

Like for example, one of the tests that I frequently use in interaction is I push on the idea some, and what I'm looking for is both flexibility and persistence. I'm looking for, no, I have conviction in what I'm thinking and I'm arguing it, but I'm listening to what you're saying and I'm adapting to the concerns and whatnot of how you think about that. Sometimes you'll find someone who says, look, I've learned to mimic that behavior, so I've learned to say for example I've learned to look, look like I'm reasoning with you and I look like I'm, I'm thinking about the challenge you're bringing up but actually in fact I'm ignoring you.

Right? And ignoring me that might be fine. Right?

Ignoring the world in general is usually a disaster. And so those are the kind of things that in the measurement you can see essentially getting wrong. But usually, the kind of thing like, most often, the kind of reference questions I asked about founders is like adaptability. Like one of the phrases that I frequently look for is infinite learning curve. Because each entrepreneurial

pattern is, to some degree, unique and new, and can you learn the new one?

Huh, right, is a way of doing it. And so like, does the learning break down, or is there some major skill-set? Is there an ego issue that gets in the way? Like, well, I must be the. Like, everyone, everyone must adulate me, and that will cause you to, to behave wrongly in adapting to the problem. Those kind of things. I think I have one last question. The woman in the back? >> It's a great co-founding team.

And from your perspective, what makes a good partnership when you're evaluating how to be a great co-founder? >> Co-founding team, how to evaluate, and then how to think about co-founders. So the first thing is, it's super important that you collaborate really well. That was the kind of the point I was making during the team, the initial part of that. Because, if you in fact, don't have pretty good serious trust, you know, kind of a way of.

It's 150 that I'm supposed to end, right? >> 205, man.
>> Oh 205, no, no, no, no I'll keep going. Sorry. I, I, I misread the time. So, I will have time for more questions, Sorry, I was trying to be time
>> So, okay, let me give a little bit longer answer to this, then. So the key thing is when you're thinking about founder, founder se, founders is, do you have a diversity of the necessary strengths across the whole range of strengths that would be useful?

Frequently you need one technical founder. At least frequently, you need to have someone who is going to be dedicated to the business side, fundraising, these sorts of things. That's. Kind of classically skill set. When you think about the two to three. And usually, it's kind of some composition across them. And that's kind of, like what you think of as founders one when you're thinking about a founding team when you get the next level deep. For example, one of the things

that people will classically tell
you is like for example don't invest in a
husband and wife team.

And actually, that's look
like, that adds a little extra freight to it and everything
else cause, you know, there's personal dynamics also
upset what's going on. I actually think that what
you're looking for is do they collaborate well, do they help
each other get to truth. Okay, so for example I. Most heartened when I'm
talking to a team that when they're, when they're
reasoning to each other, they're not like oh, we're just all singing from
the same thing.

It's like oh, well did you
think of this or what about this is a
challenge. Like you're navigating the
field of battle which has a bunch of
risks. Like for example, one of the
things that was pretty common in PayPal is Max who invented
the prod systems and everything else would
frequently come into Peter's office, Peter Thiel,
mass legend and say, look here is some things that
are going to kill us and let me focus you on them.

Right so, it's not like we're
all just kind of saying, oh yes, we're all sitting here
We are adjusting to what is truth and what's the problem
we need to solve, what's the problem in the
short term, what's the problem in the long
term and how are we tackling it? And that composition within
the team that collective problem solving, that
collective learning is the kind of thing that actually
usually makes great teams. >> Yeah, thank you for this
wonderful lecture.

I recall Peter Thiel says, we
all dream of flying cars, but we end up 140 characters. So let's ask you, you know,
how to identify. That we found this, you know
different sectors that someone might would be you. >> Mm-hm.
>> And then some of the, the common

computing or how to, how to poll outsiders or the
to for the combination. >> Yup.
>> Is there a common place or any
>> So different founders, different areas, how do you
identify them?

So. The talk was aimed at kind of
what is unique about the mindset I think of
founders. That is a great founder across
all founders. That's part of what this was. An attempt to say look because
there are difference. So for example in software,
speed to market, speed to learning is really
key. In hardware, if you **** it
up, you're dead. So, accuracy really matters. So if you build and ship the
wrong thing, you're hosed.

Generally speaking, as an
investor, and this is part of the reason why
a lot of investors, you know, have a certain set of things
that they then learn pretty well and try to
reapply because they try to understand a domain well
enough to be able to identify. Which of the founders in this
domain that really matter and if we're investing in this
domain, how do we do that well? And so there are attributes
that are unique per domain.

So, for example, you know, like if like one of
the classic ones is how good must you be at
operational efficiencies in terms of margins, cost
controls, etcetera. You're dealing in the worlds
of atoms including even in commerce, you've gotta be
really good at that. You're doing a digital game
like a Zinga-like startup doesn't
matter at all. Right.

So, and so you look for that kind of fix and
proclivities, and part of the beginning of this
is, it's not action fact that it's one person is good at
everything.

I would be, like, one of the
funniest conversations I had with a guy, a friend of

mine who worked for me at my first start-up's social net. He looked at me and he said, Reed, I would never hire you to be a manager of McDonald's. I'm like yeah, I wouldn't either. I'd be terrible at that. Right, and so it's, it's the skill set that fits, but also the whole point of this is actually being navigating a set of things that look like paradoxes.

Sometimes being heavy on one, sometimes heavy on the other. And being, having the right judgement at the moment in terms of what you're doing. And that's what tends to be more universal. You mentioned that you're taking longer than you'd like to see growing and speak a little bit about when, how do you know whether or not you should say and how do you know when to give up on also maybe with respect to like your personalize life and career goals.

How it fits in

>> So the question is basically how do you know when to pivot? Part of the reason why having investment thesis and your confidence in your investment thesis and being pretty clear on that is, generally speaking, the answer that I give people is if you're confidence is unmeasured for a fairly long time or is decreasing, cause unmeasured for a fairly long time should be decreasing and it's decreasing. And then you go into intense mode where you're trying to figure out what kinds of things you would do that would increase your confidence.

Right, and that's failing. That's a seriously good time to think about pivoting Right. And you might have thesis on can we raise money. You might have thesis on will, what's the pattern by which the product distribution and growth or, you know, viral limitation or SEO or anything else will work. And just like, well, I tried these things and this fourth thing doesn't seem as good as these three and the next two things that I think about.

So even worse that begins to decrease your confidence and that's when you should think about pivoting. A frequent mistake when it comes to pivoting is wait until you've essentially been crashed into the wall and everything is dead and you can't make any and you can't maneuver anymore and that's you waited way too long. Now, in terms of personal career goals and so forth, you know, part of the thing that I would say that is one of the things that I meant to talk to you during the slides that since misread the time, I rushed through it a little bit.

One of the classic questions is balance and I actually think founders have no balance. Like one of the funniest conversations I ever had was with a governor of Colorado who was we're going to attract really great entrepreneurs here because we have this balanced lifestyle. Like, like literally if I ever hear a founder talking about oh this is how I have a balanced life and so. They're not committed to winning, right? And so the only really great founders are like, I am going to literally pour everything into doing this.

Now, it only may be for a couple years. I may do this for a while, then go do other things. But while I'm doing this, I am unbalanced at this thing. It's not to say you don't take breaks, not to say that you don't, you know, go on dates or whatever else. But you're super focused on this, because it's really hard, and there's lots of ways to die. And that's the reason why the jumping off the cliff metaphor is one of the ones that I classically use.

>> So your definition of sorry, depends on the idea of identifying uncertain opportunities which others don't necessarily see. Overall how efficient do you think the startup ecosystem is at identifying good opportunities? >> So how good is the startup

ecosystem at identifying contrarian opportunities? Let's see. That's kind of challenge. Because the moment it kind of actually becomes in vogue it's less contrarian. I'd say it's mixed.

Sometimes because part of what makes a great investor is an ability to go look I take this radical shot and I take this radical shot. I take this radical shot and there's enough people or investors there's usually someone, if you can find your way to them, network finding your way through the network. Sometimes difficult, tons of noise, hard to get to the signal. On the other hand there's sometimes things that are just kind of like, you know, totally crazy.

Like one of the funniest things is, you know Benchmark was the only one that would fund eBay. You know, if you talk to most of the people in the Valley a year, 18 months ago about BitCoin they would've told you like what? Bit what? They have no idea what it is. And by the way, it's still unclear how BitCoin will play out, although, I think, the fact that there will be a distributed trust system on cryptocurrency is I think almost certainly going to exist in the world, and the real question is, is BitCoin the first or last cryptocurrency.

First, there's new ones and new features. Last because it's the one that has network effects and is already going. And so. I think it's pretty good with it. Frequently what happens is people think they're contrarian because they're doing something they think is a unique con-, unique combination. I'll give you two examples and hopefully the, the founders of these people who sent me these cool, I get about 30 pictures sent to me a day. That I don't basically don't look at unless or if something in the title makes me laugh.

In which case I look at it mostly as comedy. And I'll share two comedy

ones. One of them was wearable
diapers, which was the you know, you, you have the
computer monitoring you know. Whether or not the kid is you
know taking a pee or a poop and it lets you know,
and you're like. If you're that far away from
your child in this kind of thing, it's probably a bad
sign of other things. And then the other one was
kind of a customized e-commerce bongs.

And your know like, oh, I've
got a contrarian idea. Like, yes you do. But not the right way. Right?
So anyway. So, you know, but, so I think
generally speaking, the system's pretty good at
it. In the back. >> Do you find social net
ahead of time I guess. How do you think about
creating markets versus. >> Creating markets versus
discovering them? >> Yeah.
>> Okay. So this is actually, well,
it's a challenging question. The, the the, the frequent,
like, and there's a, and it's a good follow on the
contrarian thing, like frequently there's this
classic thing of, oh does the market exist yet?

Is that because it's going to
be huge or nonexistent? The good news is, it's usually
one or the other. Right? And so that makes going after
something that most people don't think is a market, but you have a reason to believe
it, is actually sometimes
frequently a good bet. However it can freq, it can sometimes completely
flame out. And one of the things you're
doing when you're testing your investment thesis is. What would lead me to think whether there was a
market there or not?

Because, you know, at the beginning there are no
markets. And so it is of course
conceptually possible to create markets. People think that there's a
new need for this sort of thing. On the other hand, the problem is how do you get
fast adoption if people don't even know that they want it as
a category. Right? So they say, well, but people, they just realize, a classic
entrepreneurial misfire. A classic one is if people
just realize once it exists they'll realize they
really love it and they'll, they'll line up in

droves for it.

Well, there's a few entrepreneurs, Steve Jobs one of them, who can do that. Most of the time it doesn't work out that way, and so you have to say in your investment thesis why is it that you think when you're thinking about a market that isn't already existent. That, that you know that other people don't know on the country basis that leads you to think that market should exist, right. And so for example, a micro one with LinkedIn was, actually in fact the classifieds means of recruiting was in fact an exercise of newspapers, an exercise in information age.

And actually, recruiting direct to people is part of what the networked age, and the internet and that's actually, in fact, how recruiting should go. Now, it was relatively easy to validate that. But, you know, that's the kind of thing where you think about, there's potentially a new market. >> Last question, boss. >> Yeah, last question. >> When do you know you've known someone long enough to start a company in front of? One of the things Stan told us a in the first semester was you someone you know for a but when you guys started PayPal.

Like, for example, how long did you, it was a large group of people so how do you know okay, I trust the people enough to start a company. >> So the read I'm, I'm, I'm repeating the question in part because we're, this is record, recorded and everything else and I want to make sure the people here it, but the question basically is how do you know that you trust someone well enough to be a cofounder. There's a whole bunch of different variables that go into it and, look, it's one of the risks that you take.

And you kind of get to a thesis of do I think that I know them well enough? Now I'll parallel one thing

that I think there's a parallel here that I think is super useful. So one of the things I tell my portfolio company CEOs or founders when they're thinking about hiring a CEO. Is I think that the only way to do this is, when you get down to the people that you're thinking you may hire as a CEO, you spend 20 plus hours with them.

Right, where you go into as much depth in a conversation about anything you think is a possible difference. Of opinion, belief, work style, so you've identified all this up front so that you're, you're, you're it's not that you have a contract, it's not like, oh signing a contract, this is how we do it. But we've established the conversation. We've, we've gone all the parameters, we've had a conversation about what we might agree with or disagree with.

One of the things that I frequently think is worth covering is almost like, kind of, the divorce. Like, wa, why would we want to divorce? Like, what would lead me to say, this isn't working, right? And to cover that up front as part of it. Because then, at that point, when you get into the field of battle. Which is hugely stressful, you go through this valley shadow of the moment. You've at least got the basis of we already conversed about a wide variety of things we've set up essentially some expectations about what, you know how we might be planning together, and if it begins to vary off that it's relatively easy to bring it up in a way that you're problem solving.

And that's the kind of thing that I think you frequently, you should be fairly confident that you have that level of trust. For me, frequently, it's to have a set of robust conversations. Such that, as like, like if something comes up later, it's like, well, we talked about this inversion. And we can, we can bring that up, so. Anyway, with that. >> Thank you very much. >> Thank you.