Spotlight: Interview with Marc Andreessen

# In Search of the Next Big Thing

## MARC ANDREESSEN KNOWS BOTH SIDES OF THE START-UP GAME.

As freshly minted university graduates in the 1990s, he and his partners went hat in hand to venture capitalists in Silicon Valley to fund their new project, the breakthrough web browser Netscape Navigator. Within 18 months the enterprise had gone public and Andreessen had become a symbol of the internet generation. Now he's a cofounder and partner of Andreessen Horowitz, a Menlo Park venture capital fund that's trying to make smart bets on tech start-ups in a climate much icier than the one during the dot-com boom. In this edited interview with HBR's editor in chief, Adi Ignatius, Andreessen talks about the complex challenges entrepreneurs now face and an investment opportunity that slipped away.

**HBR: How would you characterize the best entrepreneurs you work with?**

**Andreessen:** We aim for a trifecta in the people we want to back. We're trying to find a product innovator who is entrepreneurial and wants to start a company, and who also has the bandwidth and discipline to become a CEO. When people like that actually deliver and work hard for 10 years, the results are miraculous. If they fall down on any of those three fronts, generally it's a casualty.

**Do all those skills really have to reside in one person?**

It's hard to pair a product innovator with a business partner—or to partner the founder with an outside CEO—and have them get anywhere. We work with our companies when they absolutely have to do this, but it's very challenging.

**Can entrepreneurs be taught? Or are the skills innate?**

We think CEOs can be taught, so we specialize in training innovators to become CEOs. We don't spend a lot of time trying to teach CEOs to be innovators.

**To what extent is the start-up business still hungover from the last boom and bust in tech stocks?**

It's a really big deal, especially for anybody over age 35. It's similar to what happened after the Great Depression: Not until the 1950s did people really start focusing again on the stock market. Everybody's hypersensitive about another bubble. The minute

anything starts to show even a little bit of life, they say, "Oh, my God, it's another bubble!"

**Are you saying that the general view of the market is irrational?**

Yeah, it's irrational. The rational thing is to focus on the future, not the past. But current attitudes are very much based on what happened in the past.

**What's the view of Andreessen Horowitz?**

Obviously, we see opportunity. We started our firm in 2009, after probably the worst 10 years ever in venture capital. But given the history of these things, this is probably a good time to get in.

**Do you see the danger of a new bubble out there?**

It's in the nature of venture capital and start-up investing that there are always stupid investments. The problem is that you never know which ones are which. I get these things as wrong as anybody else. But if you're afraid to make any investments that might be stupid, you'll never get any big winners—because the big outlier winners tend to look crazy at the start.

**One symptom of the hangover is that fewer start-ups are doing IPOs. What does that mean for investors like you?**

In a sense it's good for me. As venture capitalists, we have a 13-year lockup on our money, so we take "long term" seriously. I tell our entrepreneurs, "If you build a big successful independent company, at some point you almost certainly will go public."

**In the meantime, how do you prepare them for that moment?**

I tell them they shouldn't even think about going public until they've built what I call a fortress. You build a company that's so big and powerful and well defended that it can withstand the pressures of being public. Our entrepreneurs are therefore almost completely focused on the substance of what they're doing—as opposed to what happened in 1999, when everyone tried to take companies public in two years on the basis of a lot of hype.

**Ah, the good old days.**

One of the local VCs had two mottoes in 1999. One was "Grow big or go home." The other was "Forget details, just do deals." The second one got them into trouble because some of their companies had very little substance. They were largely just press releases on their way to an IPO.

**So walk us through getting to an IPO today.**

We take companies through what we call the parade of horrors—all the stuff that happens to a public company. We take them through Sarbanes-Oxley, financial disclosure, patent laws, antitrust. We talk about what hedge funds do, and the intersection between hedge funds and fair disclosure.

**What role do hedge funds play in all of this?**

Hedge funds are much more powerful than they used to be. Market manipulation is never prosecuted, so they can lie about you all they want. On the short side, they target companies that aren't fully funded. If you have liquidity exposure on your balance sheet and you have to raise money at some point in the future, they'll try to kill you. And they can make it into a self-fulfilling prophecy, where it's impossible for you to raise money. So we talk a lot about what it means to have a strong balance sheet, to ensure you never get into that situation.

**How much cash should a start-up have on hand?**

Generally, you want to have at least two years' worth of cash on the balance sheet in case your revenue goes to zero. This is the tech industry—sometimes that actually happens.

**In this brutal environment, how important is it for start-ups to retain their founders?**

We always want control to rest with the founders. Anything else can be intensely dangerous, because of the ease with which people can mount proxy fights and all this other stuff. Large tech companies will often move to take over start-ups with no intention of actually buying them, just to screw up their business for 18 months.

**Man, I'm glad I'm on the East Coast.**

It's like World War III out here. [Laughs.]

**If IPOs are so hard to pull off, are most of today's start-ups looking to sell out to bigger fish?**

If somebody comes in here and says his goal is to sell his company, we won't invest. There are plenty of other venture capitalists who will fund him. For us, companies that are built to be independent are the most attractive. As for companies that are built to be sold, most acquirers are pretty smart and can smell

## Marc Andreessen's Career

**1992** Codevelops a graphic-based web browser known as Mosaic at the University of Illinois

**1994** Cofounds Mosaic Communications, which later becomes Netscape Communications

**1995** After just 18 months, Netscape goes public; a browser war with Microsoft soon erupts

**1996** Appears on the cover of *Time* as representative of "The Golden Geeks"

**1999** AOL acquires Netscape for $4.2 billion; Andreessen becomes AOL's chief technology officer

**2002** EDS buys Loudcloud (which Andreessen cofounded in 1999) and changes its name to Opsware, with Andreessen as chairman

**2005** With his longtime partner Ben Horowitz, begins investing in tech start-ups, including Twitter

**2005** Cofounds the social networking site Ning

**2007** Hewlett-Packard buys Opsware for $1.6 billion

**2009** Andreessen and Horowitz set up their venture capital firm in Menlo Park

**2011** Glam Media buys Ning

**2012** The firm's three funds reach a combined total of $2.7 billion under management

1992 — 2012

that. It's ironic, but it's very hard for such a company to actually find a buyer.

**Back in 1995, you took Netscape public after just 18 months. Now you're on the board of Facebook, which had its own noteworthy IPO. Can you talk about the difference in IPO expectations?**

Netscape was a different era. There was no Sarbanes-Oxley, no reg FD [regulation fair disclosure]. Hedge funds were a tiny percentage of the market. Short sellers were small and unsophisticated. And there were more long investors who really understood what it was like to invest in a small company and see it develop. There was also the expectation that you took things public quickly. I can't really talk in detail about Facebook. But in my opinion, Facebook went public when it had become a fortress. The company had built itself into a position of strength in all the areas that make it safe to be public.

**How has the lean start-up model changed the game?**

It's a direct reaction to "Forget details, just do deals." Back in 1999, entrepreneurs were guided to do a fast start-up: Get the most basic, rudimentary product on the market as soon as you possibly can, and then hype the s— out of it. Sell the s— out of it. Try to generate as much noise as you can and as much hype as you can and get the big IPO first-day pop. And then hope that in the fullness of time you'll grow into all the promises you've made to everybody. Or, the cynics would say, you can sell out quickly. A lot of these companies had terrible products.

**And now?**

The new start-up methodology is basically a complete 180 on that. It says the only thing that matters is getting the product right—developing a product that people want and use and love and will pay for—before you do all the other stuff. That is a tremendously healthy move, because it centers these companies on the substance of what they're building.

**Is there any downside to that kind of focus?**

It can be taken too far. A large number of founders are terrified of actually getting into a market. They use this approach as an excuse to never think about sales and marketing. In my view, they're in complete denial about what it takes to actually build a company and build a business.

**So what do you do? A guy comes in with a great product and no interest in the rest of it...**

We administer a beating. [Laughs.] We basically say, Look, we understand. A 28-year-old who has built a great product and comes in here is not going to have much experience in sales and marketing. We explain that a lot of products are being sold and marketed out there. If you don't take sales and marketing seriously, nobody is ever going to know about you. Nobody is ever going to buy the thing. You're going to end up losing. But if you want to take it seriously, here are the things we can do to help you.

**What are you looking for when you invest in a tech start-up?**

I define a tech start-up as a new company whose value is the innovation it's bringing to the world. It's not the value of the product it's currently building but the value of the products it's going to build in the future. So it's worth investing in a technology company only if it's going to be an innovation factory for years to come.

**You've written that "software is eating the world," that digital innovation is transforming virtually every industry. Where are we in that process?**

It's a long-term thing. Only recently have we become a world in which everybody has a computer and we're really there with the smartphone. Now is the time when a number of industries that historically have not been much affected by technology are all of a sudden in a position to be transformed by it.

**What are some examples?**

The book industry is an obvious one. First Amazon came for the book distribution business. It turned that into software—the Amazon website. Now it's turning the book itself into software. We look at industries like real estate, agriculture, education, financial services, health care, retail. And we think now is a good time to create the kind of state-of-the-art software companies that will really transform them. Ironically, a lot of these companies are actually replays of ideas that were tried and failed in the dot-com era.

**You've talked about having launched some big ideas that didn't fly because they were ahead of their time.**

We launched Loudcloud in 1999, and basically Amazon Web Services is what Loudcloud would have been if it had launched in 2006 instead of 1999. The technology wasn't ready. Reid Hoffman started a social networking company in 1997 called SocialNet.com, long before Facebook or Linkedln [which Hoffman cofounded in 2003] existed. For 20 years people laughed at the Apple Newton and said it proved that nobody had any interest in a tablet. And then along came the iPad. A lot of ideas that failed in the dot-com era were actually winners. They were just too early.

**Does access to the cloud and big data improve the odds of success for new companies, by allowing their business models to rely a bit more on science and a bit less on art?**

Yeah, I think so. The best of the companies we're seeing now are unbelievably good at analytics. They have this incredible closed loop where they analyze data and feed the numbers directly back into the process virtually in real time, running a continuous improvement loop. But none of this is a shortcut to success. That still involves a lot of art. For that matter, it's still hard to get the science right.

**What have you learned about developing the art part of the process?**

The best founders are artists in their domain. They operate instinctively in their industry because they are in touch with every relevant data point. They're able to synthesize in their gut a tremendous amount of data—pulling together technology trends, their companies' capabilities, their competitors' activities, market psychology, every conceivable aspect of how you run a company. A large number of tech companies that failed did so when they brought in a new CEO and the company stopped innovating and sold out. It's very hard to transplant a founder's skill set to someone coming from the outside.

**Are VCs actually any good at finding great companies?**

Research shows that there is a very high correlation between the top VC firms and persistent returns. These firms are good at what they do, but we believe that only a very small part of that is because they're smart. It also has to do with the persistence of the deal flow. It's a buyer-driven market for capital. And the best entrepreneurs want to raise money from the top firms, because they want the positive signaling effect—which is especially important for recruiting top talent. As a consequence, most second- or third-tier firms don't have the option of funding great companies. It doesn't matter how good the picker is. He'll never get to see the deal.

**You've made some good bets—on Twitter, Facebook, Skype, and others. Is there one bet you missed out on that you wish you hadn't?**

Square [an electronic payment service] is our great white whale. We've passed on every single round and we've regretted it pretty much every time. But we're proud of our results so far. Our first fund has returned 2x already, with a lot more companies still to mature—which has allowed us to raise the other funds very quickly.

**You've developed a strong philanthropic focus. Is the next generation of investors thinking about social investment?**

No. [Laughs.]

**So much for my hopes for the next generation.**

Many younger entrepreneurs have a social mission or a philanthropic agenda. They start early. Investors, not SO much.

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