Star Gazer Bruce Dunlevie – General Partner at Benchmark Capital

Bruce is a General Partner at Benchmark Capital and a seasoned veteran of venture capital with more than 15 years experience in high-tech investing. His investments include Accept.com (acquired by Amazon.com), Collabra Software (acquired by Netscape Communications), Encompass (acquired by Yahoo!), Good Technology, Handspring (acquired by palmOne, Matrix Semiconductor, and Palm Computing (acquired by 3Com).

[start box] "A lot of what we do is very early stage, so the notion of investing in a company, or even in a business plan, is probably worth challenging since so much of what we do has sort of nothing going for it at the time we look at it: three guys, hopefully a good idea, sometimes one person and the proverbial back of a napkin. In that context, so much of the judgment is predicated on our assessment of the entrepreneur, which includes the recruitment of a lot of other high-quality people, the ability to deliver against some hoped-for product and set of schedules, certainly the notion of business model comes into play, but I think honestly a lot of what we do is bereft of any clear business model. It's more a question of hoping that one will emerge as the entrepreneur who, by definition is an attractive person, figures it out as they go along. That is to say, one of these characteristics is the ability to do rapid mid-course correction because predicting the future is very difficult and no entrepreneur at time zero is able to do that with much accuracy.

Assessing an entrepreneur is a lot about chemistry and feel. We can enumerate several personal qualities that most of our successful entrepreneurs share; and those are things like raw intelligence, competitiveness, tenacity, stamina, interestingly enough. I mean, these are really tough jobs and they require lots of physical output in addition to mental output. We look for how compelling somebody's personality is because assembling a team around or beneath an entrepreneur is really where the success happens. Having a unique technical insight is often a component at the time we make a decision, but we realize these things are fleeting, which gets me back to this mid-course correction thing, so intellectual or emotional flexibility or agility is an important aspect of what we are looking for. But at the end of the day, we tend to boil it down to the phrase, "Is this someone we can work with?" And that embodies or encompasses a lot of things, within it is the sort of subtle dividing line between a know-it-all and a learn-it-all, and we prefer to work with the latter, whenever possible.

In terms of biggest successes, eBay clearly dwarfs all of our other ones. It's probably by a factor of five the biggest win we have had, and it was a big one, so it's so conspicuously obvious that it kind of sits there all alone. I think you know you've got a winner when two things happen: one, you've turned profitable, and secondly, you've started to encounter some surprise in the field, at the managerial level, and at the board, with what customers are starting to do with your product or asking for more of it in ways you didn't anticipate, when the phenomenon around the value delivery of whatever it is you're talking about starts to evoke certain surprises that I think you've got a bit of a runaway winner. When that happens, customers take over as the most important consideration and competition sort of fades into the background. Now, those things don't last for long, or they often don't, but when that occurs, you really know you've got something good going on.

Well, you know we have a well below .500 batting average business with that question and a lot of the things we do fail, but I don't really, I wouldn't call them mistakes, we have to take large risks in order to be in the game that we're in.

I'd say the most famous failure we've had is Webvan, and yet, I would do that deal again. We put $3 million into the series A and never put another penny into it. I'd say the organizational learning and being in the eye of the hurricane had gigantic benefits well beyond the cost of that monetary loss. I still think today Webvan was a great idea, perhaps slightly early and perhaps not crisply enough executed, but I would do that deal again if it walked in today. I'd say the real mistakes we've made have been where we've let the liquidity environment, that's usually more merger than IPO, but sometimes it's both, convince us to sort of suspend this belief that maybe something can work after. We did a couple of e-tailing things in the late '90's that in hindsight we knew all along weren't good ideas, but there was so much frenzy and so much enthusiasm and everything else seemed to be working that we did a couple deals that just had low gross margins and very high inventory. Ultimately never made it past first base. So it's those errors of judgment that I think we kick ourselves most about. Not having losses is impossible in our business, doing deals that in hindsight, you're a little embarrassed by admitting that you were in at all is where the real mistakes lie.

We don’t strategically figure out in what particular market space we want to invest dollars. We let the universe of entrepreneurs tell us what we ought to be doing and then we respond to that inflow. I’d say the identifiable phenomenon for us over the last few years has been a diminution in concentration on companies which sell things to enterprises and a marked corollary growth in companies which sell things ultimately to consumers. That’s no profound insight, but as I look back over the last two or three years that’s really a marked shift because I think for most of the 80’s and most of the 90’s venture capital business was about building widgets which delivered technology to enterprises.

I think there’s an extraordinarily high correlation between the great CEOs and the big returns. At the highly inefficient end of the capital formation spectrum that we operate in, it’s not much about business, it’s mostly about people.” [end box]