

Star Gazer Dan Levitan – Cofounder of Maveron

Dan Levitan co-founded Maveron, a venture capital firm, in 1998 with Starbucks' Chief Executive Howard Schultz. They hit the jackpot with their early investments in eBay and drugstore.com. Dan was previously a Managing Director at Schroders where he headed consumer investment banking.

[start box] “I think in terms of our investment style, the first thing we look at typically is the people, and do we think they have the right mix of passion, discipline, and experience to execute the mission. Occasionally we are less focused on that and willing to take on a recruiting assignment. The next thing we look at is the customer proposition, particularly in consumer facing businesses, there's a much higher premium on what's the cauldron of consumer passion, how engaged are consumers in the product or service, how much have they brought it into their lives and adopted it as their own, and then what's the scalability of that passion and adoption; is it a regional thing, is it a national thing, is it an international thing? How big can it be? And then clearly, how profitable is it, if you deliver it as promised?

You have to spend business and social time with the management team and try to really understand who they are, why they are where they are, what decisions have they made in their lives and why does it make sense to you? Is their skill set matched up well against the opportunity that you're asking them to do? Do they have evidence of pattern recognition of knowing what right looks like? Have they attracted great people and built great teams around them? What are their strengths? Is it strategy, is it execution, is it team-building, is it management, leadership? Do they know their weaknesses? Are they able to build a team around their weaknesses? And overall, we've had a clear lesson in understanding that great people attract other great people to businesses and if we invest in nice, but mediocre people, our likelihood of attracting great talent at business is significantly less.

I guess the biggest winner we've had is eBay and we spotted it because to their credit, and particularly to Bob Kagle's credit, who is on the board of eBay, Bob understood that although the business was facilitated by a technology infrastructure, that it was really a consumer business, and getting the psychological contract between the business and its potential, that was both listers and buyers, sellers and buyers, getting that psychological contract right was the difference between having a decent business and having a grand-slam home run. By way of example, the challenge that Starbucks had is in certain ways easier because you can get the training right and if you can scale the training and get the people issues right, is in certain ways easier than the eBay issue when you're dealing in cyberspace.

Perhaps more lucky than smart. I think that from the very first time I met Howard, it felt that this company, and this individual was different. They had a different view about what the role of the corporation was. I think the traditional view has always been we're all in business, all companies are in business to make money for shareholders, customers second, and employees third. And I think that even then, fifteen years ago now, or fourteen years ago, Howard had a very enlightened view, which said that given the business that he was trying to accomplish, his first constituency was his employees and his customers were second and if those two constituencies were aptly served, the third constituency would be more than amply rewarded. So, I would say, I saw a business which had a psychological contract both between the business and its people, and then as a result, its people and its customers that I thought was really powerful.

I do believe that great people take great situations and drive outcomes that good to average people just can't do, whether or not the market develops as you expect or differently. You know, second, I think learning is if you don't fully understand the customer and you don't fully understand the business, you should never invest. I think when people get in trouble is when they try to chase the next hot sector and they creep from their strategy. I do think there's huge benefits from pattern recognition and knowing what you know and having the discipline to know what you don't know. Clearly, another one is getting out of touch with your customer. Early in my career we invested in a company that was a trendsetter and a leader in the retail space and did a great job of connecting with the customer. They did such a good job that they attracted a lot of competition. Prices in their category came down, a lot of their production went to China, and instead of continuing to innovate and really focus our time on that, we had management focused on expanding the concept at exactly the wrong time.

I think we're in an unprecedentedly interesting area of time for consumer investing. And there's a lot of reasons for that, but in general, I think to me the two main reasons for that are the consumer in the US has a hell of a lot of money, and based upon what's happened in the last 25 years, you've got this incredible emergence of a large, large upper middle class, and second, technology's creeping into their

lives and reallocating their dollars in ways that they never have. So within that, I think we see a lot of bifurcation of America, economic bifurcation, and I'm pretty excited about some of the higher end products and services that I think will emerge. An example of that, we'll see what happens, it's a challenging business, but I'm pretty excited about our airline, EOS.

I think it's over hyped in terms of valuation, but I do think there's tremendous interesting opportunities around Web 2.0, and what happens as consumers bring web technology into their lives, whether or not it's through their desktop or their PDA or through their phone. On the other end, I think Potbelly's has the opportunity to be a really, really, really big business. There's a lot of executional challenges, but I see the same level of "wow" in other great consumer investments that I've been involved with that I see in Potbelly, and I think it's a really interesting opportunity. We've got some interesting stuff going on in the Hispanic market, I think something like 50% of the new consumers over the next 15 years in America will be Hispanic.

I think the way to be successful in investing in tomorrow's stars is having some combination of curiosity, looking at a lot of things and being incredibly open-minded. And lastly, giving yourself a glass of cold water and applying a healthy set of discipline in terms of understanding where the weaknesses are that could prevent the execution of an otherwise good idea. If you blend that curiosity, passion and discipline and spend the time to really look at it from not just your own perspective, not just management's perspective, but the customer's perspective and the marketplace's perspective, I think you have an interesting opportunity to find some things that can be really big." [end box]