

Star Gazer Geoff Yang – Founding partner of Redpoint Ventures

Geoff Yang is a founding partner of Redpoint Ventures. Prior to founding Redpoint in 1999, Geoff was a general partner with International Venture Partners, which he joined in 1987.

Geoff is an expert in the systems and consumer media space, where he's found his big winners, including Ask Jeeves, Excite, Foundry Networks, Juniper Networks, MMC Networks, TiVo and Wellfleet.

[start box] “Principally I look for something that can be big. The perennial debate is about what's more important: management or market? While you can make a case for either, I tend to be more on the market side with the philosophy that says, if the market's big, something can be a big company, that you can hire great people around it. Since we do investments at the earliest stage, I have no problem going and finding people around a great opportunity. The second thing, clearly, is good management, but I feel sometimes even if you have great management, they can only build so big a company if the market can't support the size of a great company. It's almost as if you're throwing a great party and not inviting anybody.

Generally in the venture capital system, you build two types of investments. One is, I call, faster better cheaper. This is characterized, by words like “ten times performance at three times the cost,” “a better way of doing something.” Typically it's characterized by strong engineering and going after existing markets with better solutions. When you look at those types of markets, the market sizes are reasonably easy to quantify, because they're existing, people are spending money on this type of thing, and you always look at if you could offer more performance at a lower price or a slightly increased price, would people go after it? How much market expansion could you have? Either the observed market is this and we're going after the observed market, or anecdotally, you talk to a bunch of customers and they say, “Yeah, if you had this product, I would be interested in buying this and this.” Then you go into the market and figure out approximately how many customers there are like this, and how big of a market can you build? For us, at the earliest stages, it's very often very difficult to quantify with precise accuracy the size of a market other than big, medium, and small. So I'm really looking for something that can be big. In those types of instances, I look for proven management, people who have done this type of thing before, who have a credible track record of success doing what you're going to ask them to do.

The other type of deal is a slightly different type of deal that I call “brave new world.” You hear words like paradigm shift or enabling people to do things they've never been able to do before, or we're going to change the way people are going to live their lives and typically it's just characterized by brand new markets and creating new usage paradigms and that type of thing. Very often in those types of businesses it's very difficult to determine how big a market can be other than looking at analogies, and say, well, this type of thing changed the way people did it, and this is how big that market is, and this is how big that company became. This is more speculative, and they tend to be more home run kind of opportunities, creating a new market category. In those types of businesses it's harder to find people who've done what you're asking them to do before because you're asking them to create a market that heretofore didn't exist. So what you look for is people who have done things that are analogous to what you are asking. Or they have some conceptual way of thinking and you sit there and think this is sort of like x company for a new market. Offline experience in the ad space going online for example.

On the former, I don't feel badly at all about investing a reasonable sum of money on getting a product into the market for engineering and I kind of know, can scope out exactly what the engineering task is going to be. I know what the business model is going to be and I know approximately how many salespeople I'm going to need and so forth. In the brave new world stuff, I may not know what a business model is and I don't want to have a lot of capital at risk up front, because the whole thing could just blow up and go away. You finance the companies differently, on the faster better cheaper I don't mind having a reasonable amount of money at risk because it's really all about good engineering. On the brave new world stuff, it's a lot about concept risk, it's less about a good business model risk, are people going to put you out of business, and all this kind of stuff. I tend to want to have less money at risk up front, but if it works, then put more money in later.

Sometimes on these brave new world things, you look for younger people who don't have the burden of knowledge. When we started funding these internet businesses in '94, none of these people had ever done anything like this before, it's not like you had a base of people to go draw from to run internet businesses. I look for the ability for someone to kind of will something into existence because at the beginning of a company there really isn't anything there. It is an idea, and it's the ability to have

somebody convince other people that their idea is real and that they should join them and customers that they should use them or partners that they should partner with them. Certainly you need to be smart, you need to have people skills to be able to lead people to follow you, and I think you need to have paranoia. I just love people who worry a lot that if they don't do it then someone else is going to do it before them. It's this whole philosophy about whether winners like to win or they hate to lose. I am more of the camp of winners can't stand losing. Everybody likes to win, but I kind of like people who can't stand the thought of losing.

I don't know that you ever really know that something's going to be huge until it actually starts taking off. You kind of start getting the feeling that it could be big, like MySpace. You start feeling like, oh my God this thing could be really big, because it starts taking off. When things start growing and it's almost like a fission reaction, where things just start happening on their own and things start growing faster than you can explain or expect. That's when you kind of know you're onto something." [end box]