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Lead Left Interview – Scott Kupor

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This week we chat with Scott Kupor, managing partner and COO, Andreessen Horowitz. Andreessen Horowitz is a $4 billion venture capital firm, founded in 2009 by Marc Andreessen and Ben Horowitz. The company is headquartered in Menlo Park, California.

The Lead Left: Scott, thanks for taking the time to speak with us. How did the tech bust of 2000-01 affect the way you look at tech companies and the way the industry operates?

Scott Kupor: The biggest lessons from the technology bubble of 99-00 are the importance of market size and individual customer economics in developing sound, venture-financed businesses. In 1999, we had about 400 million people globally on the Internet and – although this was a significant growth from the 40 million in the very early days of the Internet (1995) – it was too small of a market to be able to sustain large, standalone businesses. At the same time, the individual customer economics were not viable. The cost of servers, data centers, infrastructure software, bandwidth, and so on, to support customers were too high. The costs to acquire customers were also prohibitively high – in part because of the smaller market size and in part because of the expensive, traditional media advertising methods required to reach those limited number of customers. Today, all of these trends have progressed positively to make these businesses more economically viable. The overall market size has grown nearly another 10x – we now have about 3 billion global internet users – and the growth of smartphones will enable not only further market size growth, but also more and new uses cases, given the far greater utilization of mobile phones relative to personal computers. Input costs have fallen dramatically, as the advent of cloud computing now allows on-demand infrastructure, combined with 10-100x declines in technology input costs (e.g., storage, networking, servers) over the same time period. And finally, the costs of acquiring customers has fallen both as a result of the growth in market size and the advent of more efficient social media-based platforms (e.g., Facebook, Twitter) that enable better customer targeting.

TLL: The pace of change in tech is so disruptive today – how can you tell a company won't be pushed aside by the "next big thing?"

SK: This is part of what makes investing in technology such an exciting endeavor. However, as you note, it is true that there are no guarantees that some startup working in a garage somewhere won't develop a new breakthrough that can upend an incumbent in dramatic fashion. In fact, the opposite is true – all companies need to remain paranoid about the pace of technological change and its impact on incumbents. The only way to handle this is to vigorously invest in R&D to remain on the cutting edge of product cycles. And this is an area in which the public markets – I believe – are doing a dis-service to incumbent players – by making it very difficult for companies to invest in R&D or transformative M&A to stay ahead of the competition. The rise of activist shareholders – assets under management are up more than 10x over the last decade – and the unholy marriage between activists and more traditional value-oriented shareholders have had a dramatic impact on the level of R&D/M&A investment in public technology companies. The push from these shareholders has been to increase dividends and stock buybacks, at the expense of the investment in forward-looking technology projects or transformative M&A. This also explains the level of split-up (e.g., Symantec, HP, eBay) activity in public technology markets. I believe that the long-term effect of these short-term oriented shareholder strategies will be to enable newer companies to disrupt existing markets and displace incumbents in a way that we haven't seen before in a technology product cycle.

TLL: What are the signs of a sector ripe for disruption (e.g. taxis and Lyft)?

SK: One of the themes in which we have invested is the concept that "software is eating the world." The basic idea behind this is that software (and automation more generally) is beginning to permeate industries that may have traditionally been protected from such intervention. Netflix, for example, is a good illustration of software eating the traditional TV/film industry – streaming just recently passed DVD rentals/purchases in terms of annual spend. As a consequence of software eating the world, we believe that the intersection of regulated industries and technology will continue to increase. The taxi market that Lyft and Uber (and others) are going after is a prime example – regulation designed to protect the incumbents also left the industry vulnerable to a modern, software-based approach to service delivery that brought with it significant customer value. Where the customer benefit becomes so significant – e.g., Lyft for transportation; AirBnB for accommodation – we believe that more and more regulated industries will face competition from technology-enabled startups.

To be continued the week of July 6

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