EPISODE 995

[INTRODUCTION]

[00:00:00] JM: Venture capital investing requires an understanding of market dynamics, technology and finance. There's also an element of human nature. Consumer trends can make or break the viability of a new product. An early-stage venture investing is always a bet on a small team or individual founder.

Early-stage investments are usually into companies that have not found perfect traction with their product. Judging the worth of an early-stage investment means judging the likelihood that the founders can make their vision a reality. Venture Stories is a podcast that explores the wide spectrum of ideas that go into venture investing. Shows include two-person interviews on economics, social networking, food technology, cryptocurrencies and consumer psychology.

Erik Torenberg is a cofounder and partner of Village Global, which is an early-stage venture capital firm and he's also the host of Venture Stories. Venture Stories is a show that I've enjoyed since it came out and I'm happy to have Erik on the show to discuss investing, media and the kinds of new technology companies that are being created today. It's a wide-ranging discussion and I hope you enjoy it.

[SPONSOR MESSAGE]

[00:01:20] JM: Today's show is brought to you by Heroku, which has been my most frequently used cloud provider since I started as a software engineer. Heroku allows me to build and deploy my apps quickly without friction. Heroku's focus has always been on the developer experience, and working with data on the platform brings that same great experience. Heroku knows that you need fast access to data and insights so you can bring the most compelling and relevant apps to market.

Heroku's fully managed Postgres, Redis and Kafka data services help you get started faster and be more productive. Whether you're working with Postgres, or Apache Kafka, or Redis, and that means you can focus on building data-driven apps, not data infrastructure.

Visit softwareengineeringdaily.com/herokudata to learn about Heroku's managed data services. We build our own site, softwaredaily.com on Heroku, and as we scale, we will eventually need access to data services. I'm looking forward to taking advantage of Heroku's managed data services because I'm confident that they will be as easy to use as Heroku's core deployment and application management systems.

Visit softwareengineeringdaily.com/herokudata to find out more, and thanks to Heroku for being a sponsor of Software Engineering Daily.

[INTERVIEW]

[00:02:53] JM: Erik Torenberg, welcome to Software Engineering Daily.

[00:02:56] ET: Thank you for having me. It's a pleasure to be here.

[00:02:57] JM: You started Village Global two years ago. What were the specific gaps in the fundraising ecosystem that you saw as opportunities to close?

[00:03:06] ET: I had this tweet last night, as many good lines begin. It's called Venture Capital, and yet all venture capital firms operate basically is that they're central planners. It's five people on Sand Hill Road. Some of them moved in San Francisco making investment decisions across all sectors, all geos and in all people. The joke was venture capital more like venture Soviet Russia.

Why do you venture capitalists who believe in capitalism believe markets have this sort of top-down centrally planning view of how they do their own business? One reason is that it used to be the case where you could literally have an investor who covered the entire Internet sector and what's happened is we've had an explosion of sort of new subsectors and subsectors within those subsectors, explosion of complexity. Things have gotten more and more complex so that you need more and more expertise, and venture has not adjusted accordingly.

On multiple fronts, we realized we wanted to put markets in venture. We wanted to instead of just having five people masters of the universe making all investment decisions where they can't possibly have expertise in every sector, possibly have connections in every geo, possibly have the best insight in every person, how could we through markets, through incentivizing people via carry. Incentivize dozens and dozens and potentially hundreds of people to make investment decisions on our behalf to source companies, to select companies and to support companies on our behalf and create a true market for venture capital. That was what we decided to do.

[00:04:40] JM: Can you describe how the mechanics of that? What are the implementation details of making that work?

[00:04:45] ET: Sure. On a high-level, we find founders and angel investors who have expertise in different sectors were connected in specific company mafias or run local geos that were excited about and we say, “Hey, if we make an investment together or we’ll give some pool capital directly, we will refer some of the carry that we receive goes directly to you.”

We asked them that they put some skin in the game but allows them to have basically free upside in addition to the investments that they are making in exchange for the work that they do. Some source companies for us will select and then support and they get some carry for that. Some will source a company and say, “Hey, [inaudible 00:05:25], you’re an expert in fintech and emerging markets.” We’ll send it to him. He'll decide for us. Will give him some carry for that.

Then there’s, Jared [inaudible 00:05:34], for example, who’s running a company that automates FDA compliance. He’s an expert in how companies think about the FDA. Source company, we’ll invest the company. We’ll send it to him. He'll help them with their FDA compliance. We’ll give them some carry for that. There's some people who do all the above, and that's the sort of unicorns. That’s how we think about it.

[00:05:52] JM: Does that lead to an overwhelming amount of deals that are coming in? Is there something that you have to build or how do you manage the influx of deals from that large network?

[00:06:07] ET: It's an amazing question, because historically VC has been an anti-networks effects business. The more deals that you make, the worse your portfolio would be in theory, because each partner's time is limited and so forth. They cannot have the same investment judgment across a wide number of deals or have time to support a wide number of companies. That's why VC has been anti-networks effects business.

Now, YC totally changed the game. People like to put down firms like if I'm talking about startups, they say it's spray and pray. Yet no one says is about YC. YC does – I mean, who does more deals in venture than YC? YC does 400 deals a year. YC is the only firm, and we think we're now getting into this firm, that's able to have a networks effects business. The way YC does it is by peer-to-peer community. They say, effectively, who's the most helpful person to help your business? Founders. Not necessarily other investors.

So, we're going to put you in this concentrated experience where other founders are going to give you advice and help introduce you to customers, be your customers and provide that sort of emotional support that you might get from an investment partner. That's how they made VC network effects business.

Now, they have the opportunity or benefit of having 15 years of founders go through their program. If you're trying to do that from scratch, hey, you don't have hundreds of companies do that. What we did is we said we're going to sort of artificially create that community, that network, by incentivizing out the gate. So, yes, we have many dozens of network leaders that support specific companies. We have 180 companies and what we say is each company has a one-to-one, either a network leader or a partner associate with them, and that's how we're able to pick companies at scale because, yeah, if it was Eric Torenberg picking 180 companies, he can't literally do that. My decision-making would be compromised.

But if you say each network leader, that's what we call them, gets to do two or three deals a year. It's people they know well, it's sectors they know well. You can maintain quality at scale both on the picking side and then also on the supporting side in terms of having bodies who have expertise who can spend time with companies. That's why we called a marketer a marketplace of advisors, of investors and of companies, founders.

[00:08:19] JM: One of the main inspirations from Village Global is, from what I can tell, some of the models of YC at least in terms of the volume and the recognition of network effects and the recognition of dramatic increase in the number of people who could potentially start companies. Therefore, you want to increase the nodes that you have out there that are searching through these potential individuals.

The other venture firm that I see you as somewhat related to is a16z, because they pioneered the focus on media. This is certainly part of your work with Venture Stories, which is a podcast that I am a pretty big fan of, because you really explore a lot of different subjects in venture stories and you have quite a prolific output. What is the relationship between media and venture capital?

[00:09:18] ET: Yeah. It's a great question. I want to add another point to the YC thing and then we'll get to Andreessen. YC is also proven that were – I just want to give YC their due. They've really innovated and pioneered and we look up to them a lot and were – Because I worked with them a bunch even though as we compete at the same time.

YC pioneered is thinking about venture as a platform and as a franchise. Warren Buffett says something along the lines of, "I want to invest in businesses – A business is a franchise when you could replace the management with terrible management and it'd still be strong." Now, people who run YC are fantastic, but they lost Paul Graham. Didn't miss a beat. They lose Sam Altman, didn't miss a beat. They can lose Michael Seibel, won't miss a beat. They've really built an institution that outlasts any individual partner. If you take [inaudible 00:10:01] Benchmark – Benchmark has one a great job of replacing too. But succession is a lot harder. Venture is still very much a craft and I admire YC for turning into a product and a platform and truly a franchise.

A16Z has also pioneered a bunch of different things. I mean, the whole services model. We're trying to do that in a decentralized way, but they do in a very centralized way and a great way hiring over 100 people on staff. They really pioneered this idea that we take a lot 10 years later is it's a very crowded market. So to gain the hearts and minds of a founder, you need to do something different and you need to be loud.

Their differentiation was their centralized service model. For us, it's two things. It's decentralized model. It's also our luminaries who we've been fortunate to work with and have onboard as not only LPs, but people who lend their brand and time in addition to their capital. Then in terms of media, thousands of seed firms. How do we get attention? That's when the hearts and minds of a founder. I've been doing this podcast ever since the product and days. I appreciate your kind words about it.

We're a generalists firm. We're trying to attract founders of all stripes in all sectors and my goal with the podcast is to sort of create a catalog of defining episodes in different sectors. It's sort of a buffet. All you can need. But for people who are fascinated to go deep on sort of emerging fintech or logistics or food tech, I want this to be the best episode for that sector and it also helps us source our network leaders who are always looking for experts. It's synergistic across a number of different fronts.

[00:11:37] JM: In venture stories, you're not only exploring these business sectors through the explicit lens of business and how are you building this particular business, but there is also the framing of the world in the eyes of these different political, economic philosophical thinkers that I think in many ways are kind of related to the world of the blogosphere, or the Twittersphere, or just whatever is the cutting edge of ideas and writing and editorialism that is going on across the world.

I'm wondering what you see as the connection between these provocative or fresh ideas and the business sector? Because it's clear that even Silicon Valley, there is some kind of mixing of those two categories. The category of business and the category of these provocative philosophical or editorial or whatever you want to call them, blogosphere ideas. What do you see as the overlap or the foment between those two areas?

[00:12:58] ET: A few things. One is that I think technologists have paid too little attention to not just politics, but really the economics, the outside world, and I think that has set them back in two ways. One, it puts them on the defensive, and so they don't realize what's informing the tech clash or what's informing when CEOs are getting fired left and right or being challenged or when there is just sort of greater animosity towards technology. They don't understand. They're not getting ahead of it. They're not defending themselves in proper ways to truly understand the concerns.

I think, one, in terms of we want to – I think being pro-technology is being pro-civilization, pro-civilization. So it's important that we wrestle with these ideas to understand where the critiques are coming from, where they are, where there's credence to it, where there's not credence to it and contributing in that conversation. I see myself as trying to do that.

But then also just in terms of being a better investor, I think early on in my investor career, I was really focused on where are the gray founders. How do I find them before anyone else? How do I create products and services that allow me to do that at scale? I still do that today. That's my thesis for [inaudible 00:14:10] such a valuable tool for me as an early investor. That's why I started OnDeck, which is a community for people who are looking to start or join their next thing. I said, "Hey, I'm not going to compete with Bill Gurley on how to evaluate the best ridesharing company or I'm not going to compete with Josh Kopelman in terms of being on the board of an early seed company, in terms of adding value as an individual, but how can I build products and services that really give me an unfair advantage whether it's helping people find a cofounder or helping people find a customer or whatever it is." I'm talking about this is what set me apart in my early investor career, which I still am.

But in terms of now, I have wrestled with ideas in the *Sovereign Individual*, which is a great book, or *Nonzero*, which is another book, these sort of economic ideas. It's really about the future. Where's the world heading and where does that want lead me to spend more time in things like homeschool, things like mental health, things like – I mean, education more broadly. The future of labor. It's important to know history. It's important to know economic. It's important to know politics to become a better investor.

[SPONSOR MESSAGE]

[00:15:18] JM: When I'm building a new product, G2i is the company that I call on to help me find a developer who can build the first version of my product. G2i is a hiring platform run by engineers that matches you with React, React Native, GraphQL and mobile engineers who you can trust. Whether you are a new company building your first product, like me, or an established company that wants additional engineering help, G2i has the talent that you need to accomplish your goals.

Go to softwareengineeringdaily.com/g2i to learn more about what G2i has to offer. We've also done several shows with the people who run G2i, Gabe Greenberg, and the rest of his team. These are engineers who know about the React ecosystem, about the mobile ecosystem, about GraphQL, React Native. They know their stuff and they run a great organization.

In my personal experience, G2i has linked me up with experienced engineers that can fit my budget, and the G2i staff are friendly and easy to work with. They know how product development works. They can help you find the perfect engineer for your stack, and you can go to softwareengineeringdaily.com/g2i to learn more about G2i.

Thank you to G2i for being a great supporter of Software Engineering Daily both as listeners and also as people who have contributed code that have helped me out in my projects. So if you want to get some additional help for your engineering projects, go to softwareengineeringdaily.com/g2i.
[INTERVIEW CONTINUED]

[00:17:06] JM: When you get steeped in these philosophical ideas and the ideas that are floating around Twitter, the ideas that are floating around the podcast world with the intellectual dark, whatever, does it ever feel alienating in a sense? Because that world can be very engrossing and you can get a sense that this is truly the world that we live in. But then you go home for Thanksgiving, the rest of the people at Thanksgiving are not living in that world. Do you ever get a sense of alienation?

[00:17:48] ET: It's interesting. I certainly get disorientated. I mean, I remember Product Hunt 2014, 2015, we were darlings of the technology world. We were loved by the media, by journalists and we were – Fundamentally, we were pro-maker, pro-tech. I don't think Product Hunt could take off in the same way that it did in 2014, 2015 because the environment is too hostile. People are upset that Donald Trump is president. People blame technology, whether rightly or wrongly. People blame startups for doing so.

A startup like Product Hunt that is helping other startups exist I think could thrive today, but it wouldn't be as universally celebrated, because people fundamentally have increasingly anti-tech tendencies. That to me is disorienting in terms of initially where did it come from, and we've been trying to spend some time to figure that out.

[00:18:40] JM: Where does podcasting fit in the lineage of books, TVs, radio, film. What role is podcasting serving as a media format?

[00:18:58] ET: Marshall McLuhan is a great media theorist and he has this great concept of hot and cold mediums, and Alex Danko did this really fantastic summary on his blog, and definitely check out Alex Danko's work. I believe he called, channeling to Marshall McLuhan, audio a cold medium. I think – I'm trying to remember exactly what this distinctions meant, but I remember the specification of audio was that it's such an intimate medium even though it's weird because you can't see the person.

You'd think that video is more of an intimate medium, but there people who've listened to my podcast and I've never met them, but they felt like close friends my whole life when they meet me and I feel the same way. If you listen to my podcast and tell me you love it, that is bigger complement than any other business or company I've been a part of. There's something about audio that's just such a raw intimate medium where you can listen to someone for two or three hours. I mean, Joe Rogan, Tim Ferriss, all these people have proven, Eric Weinstein, that people want higher level of conversation and they're craving it.

I think that podcasting is something that anyone can do. I encourage people to go. The more niche, the better. Have the conversations that only you can have. I think about it as sort of collaborative self-discovery. Thinking out loud, learning out loud. We're sort of seeing this this web of people who keep going on the same podcasts as different guests, but there's sort of this overlapping, intersecting sort of Venn diagram of different topics and different areas.

I mean, the Intellectual Dark Web, that the native medium for it is the podcast, right? It's Joe Rogan's podcast. It's Sam Harris's podcast. From a venture perspective, in China, it's already a huge business today. The question in the U.S. is, "Hey, is Apple going to win that? Is Spotify going to win that?" We saw Gimlet sold to Spotify for 300. I think, Anchor just under that. It will be interesting to see. I'm not making any podcast bets yet, but I know that the value created by podcasts is incredible and only growing.

[00:20:52] JM: Do you have any thesis there or are you just literal not going to make any bets even in weekly spirited ways?

[00:21:02] ET: I love the Breaker Team. I love what Breaker is doing. I use Breaker. I listen to it three times a day when I listen to podcasts. I think there is opportunity to create sort of Pandora for podcast, opportunity to create podcast playlists. There's opportunity to create podcast snippets. I've long wanted to create a better Quora, or someone to create a better Quora by taking all the Q&A's that have been on these fantastic podcasts and transcribing them and putting them into either a Rab Genius or a Quora Q&A like format. There's so much wisdom that is set on podcasts that is not transcribed on to the Internet, and I think you could compete with Quora, or Quora should just do this. That's something that I would like to see.

[00:21:42] JM: Do you have a sense as to why people are listening to podcasts? Is it to actually learn or is it for a sense of company?

[00:21:49] ET: I've met so many people who've said, "I used to listen to music, but now I listen to podcasts." There's something special about it, because music is one of the most intimate forms of connection. People experience deep forms of meaning through music and aliveness, and I think podcasts, there's something about podcasts that's even stronger for some people, where the bonuses it makes you feel like you're getting smarter. There's a sort of deep emotional resonance. We all want to be voyeurs. We all want to be in the fly on the wall of that fascinating conversation. I mean, it is sort of incredible world.

Today, you can listen to experts, literally world experts in any topic talk about your favorite topic and listen at 2X speed at any time. Now, I sort of joke that the barrier for me to get coffee with a friend is wanting to do that over listening to Eric Weinstein and Peter Teal talk about the future of our economy. That's a pretty high bar. I could listen to the smartest people in my favorite topic at any given time and I'm choosing that. I have a conversation with you.

[00:22:48] JM: How many times are you going to listen to that episode?

[00:22:49] ET: That's a great question. But there're a lot of Eric Weinstein episodes out there. There're interesting podcasts one can listen to and it's only getting bigger.

[00:22:57] JM: It's interesting you say that, because I reach podcasts inbox zero on a regular basis, but I guess you don't.

[00:23:03] ET: No. I find podcast, I found Sean Carol's podcast the other day. I said, "Okay. Here's another ADM we listen to."

[00:23:11] JM: Really?

[00:23:11] ET: Yeah. After On his Rob Read's, but I keep finding these niche podcasts and I'm like, "Okay, I'm just going to go one by one into this one."

[00:23:18] JM: Coming back to venture. Some investors have a thesis that the opportunities in pure software companies are drying up and now the only opportunity is in "hard tech companies". Do you have any belief in that thesis, the idea that we can't invest in CRM's and analytics software anymore. Now we need to just look at hardware and drones and whatever, building neighborhoods or something.

[00:23:48] ET: I don't think that's right, but I think it's wrong, but it's wrong in an interesting way. There are some directional truth to it. If we think about how software has eaten the world to date. In the first sort of phase of software eating the world, we saw things like Uber, and Airbnb, and eBay, and creating marketplaces on all different sites. I actually think markets eating the world is a more proper representation of what software is doing. Its creating information markets. Its creating rating systems, ways to rate the raters, etc.

I think the second phase, and this is what people are talking about, is software ate the virtual world. Now it's going to eat the physical world. Industries that were not software-driven before were sitting here in WeWork. Real estate, transportation, logistics, insurance, heavy, heavy industry, software is going to eat that. Ben Thompson had this great post, neither knew, that talked about how they're not even software companies, they weren’t tech-enabled companies and they have different trends.

But I think the third phase is it will be back to software and it's going to create markets and things that didn't even exist prior. I'm excited about prediction markets, which are trying to do what Bitcoin did for money. They’re trying to do for truth. I think those things totally don't exist right now or they exist actually in gambling, i.e. in basketball. If I want to take a look at who's going to win tonight, the Knicks or say the Clippers and I look at the odds, that's actually a pretty good indicator of what's likely to happen, because it harnesses the wisdom of the crowds.

I'm super excited for that to exist in a better capacity in politics. It could be 21st century polling company. But also in health insurance, also should we hire the CEO or fire this person or should we do X? I'm just really excited for platforms that create the – Sort of enabled the wisdom of the crowds. I'm excited about various different software use cases that require changes in behavior. I’m excited about Yelp for people. I’m excited about stock markets for people. Obviously, these have some scary implications. But there is a lot of information that's in people's heads that's really valuable, that if it was on the Internet, would unlock a ton more value.

I think we’re just seeing the beginning in terms of education being put online. It's still online in a very mass way, but we’re going to see it in a very personalized way. I think we’re going to see LinkedIn unbundled and a ton more professional networks, niche networks created because of it. We’re going to see lots of new ways of doing consumer social and connecting to people. I think software is just beginning. I think software is eating the real world in a way that makes hardware – And hardware companies more exciting than they were.

[00:26:21] JM: We did have Yelp for people, didn't we? Wasn't it too taboo and they had to shut it down or something?

[00:26:26] ET: Yeah, and the same way that we had a lot of social networks and didn't work, because people didn't want to put their photos on the Internet. Yeah, peet pal. There're a lot of people trying to do, but someone will figure out the right way for it to be positive for society and for people to be excited about it.

[00:26:41] JM: Okay. Here's another thing that may or may not be taboo in the future. The amount of surveillance technology that can be taken off-the-shelf and be used for high-utility purposes, facial recognition for example, it's fairly taboo today, the idea that you could use facial recognition very heavily for high utility purposes. I just use that as an example of a taboo that could change overtime and could generate significant value and could be a foment for new companies. Are there any other taboos that you think could change overtime and be fertile ground for new startups?

[00:27:25] ET: Two that I brought up are taboos. Yelp for people and stock markets for people. The idea of shorting people is definitely a taboo. In my version, you would only long people. Ruining reputations is a taboo, but I think we'll build new technologies that allow for pseudonymous identities, that allow people to rebuild identities, have multiple identities so that the cost of having a negative score on something won't be as high, won't be as existential. You don't put all of your money in one bank account. I think it's weird that you put all of your reputation in one name.

I think we'll create new technologies to dispell all these taboos. But Mark Andreessen that had this phrase he said, "There's no bad ideas. They're just too early." Sequoia invested in Webvan in 1998. People invested in pets.com in the late 90s. People said that was dumb. 20 years later, multibillion-dollar companies built in Instacart and in Chewy.

With taboos, I think there is a lot on the gene editing side that I won't even pretend to know enough about to speak on, but I think a lot that today looks very weird, i.e. doing things like preventing your kid from having autism, to being deaf. Certainly a lot of questions around that. I think there are big taboos around charter cities, startup societies that will compete with governments at some point.

I mean, it's worth thinking. Like the phrase software eating the world, it doesn't stop at the digital world. It doesn't stop at the real world. It's going down to the quantum level of what it is to be a person. I tend to be a pro-technologist. We just need to do it in the right way and be smart about it. Yeah, it's an exciting, but it's also a scary world ahead of us.

[00:29:03] JM: How widely applicable is the idea of income sharing agreements?

[00:29:07] ET: Income sharing agreements are well-hyped, but not practice much yet. There is still a lot of infrastructure needs to be built, and that is an idea that's very taboo. I've gone the most flack on Twitter for my thoughts in income share agreements because – Five years ago, this wasn't even possible. People equate it with slavery, basically, or indentured servitude. Not knowing that often it's taking the place of debt, which is even worse for people, certainly college students, and that income share agreements to the extent that they hurt anybody, it hurts people who are making a lot of money and it really helps unlock a ton of opportunities for people who wouldn't have had them otherwise.

There are startups like Lambda School that are enabling more and more people to have an education by offering income share agreements, but there are people that are trying to do really interesting experiments. If you could imagine, a kick-starter for people where you can not back people just based on the project, but back people who want to say, "Hey, I want to learn this boot camp, or I want to release this album, or I want to have X, Y, Z experience. Would you fund me so I can do that?" and then receive, share the profits.

If you imagine having a board of directors say, "Hey, Jeffrey, be an advisor. Meet with me four times a year for the next three years. Help me with this project. If I am very successful, you will receive some in the proceeds."

What I like about income share agreements is I love the idea of lining incentives so that we encourage more people to really feel interconnected and intertwined. There are lots of ways to do that, but economic agreements are one of them. I've invested in a lot of founders. I feel a tie with them that if they needed to stay in my couch, I would let them do that, and I want other people to feel that same sort of tie with people outside of their family or even friend networks.

[00:30:55] JM: Do venture capital spend too much time on Twitter?

[00:30:58] ET: I think if you're a venture capitalists, you either want to go all in on Twitter or not at all. There is to be or not to be.

[00:31:06] JM: Can you elaborate on that?

[00:31:06] ET: Sure. I think venture is a top of mind game in many ways. A lot of ventures are commodity. People like to talk about adding value, but there're a lot of venture capitalists who add great value. How are you separating yourself from the pack? Sometimes it's really just being who is the first go-to-person you go to and where do people spend a lot of their free time? On Twitter.

If you can be in the hearts and minds of other founders and other investors, if you have interesting ideas on how to build companies or how venture capital works or really just sharing authentic stories about yourself, that can be a way to scale being in front of a lot of people. It's worth doing if you can do it really well.

[00:31:48] JM: You spent some time building a rap battle company, right? Rap.fm. Why didn't that business work out?

[00:31:56] ET: Yeah. So many reasons that we got. First, let me get back to Twitter. One thing I also want to add is that I think the parity VC accounts – Well, I think they are –

[00:32:06] JM: Hilarious.

[00:32:06] ET: They are hilarious.

[00:32:08] JM: At least the earliest ones. Clean it out quickly.

[00:32:10] ET: Yeah. The irony there is they themselves want to be VCs. I guess it's funny – And VCs should be able to laugh at themselves, but I think we are facing real anti-tech sentiment and I think you want to be on the side of the builders. You want to be in the side of people – VCs aren't the builders, but they're supporting the builders.

I think that if you want to see better VC behavior, call out the ones who are doing great and come join the game. Be one yourself. I think laughs are good, and let's laugh at ourselves always. But for the ones in which it's done out of spite, I encourage you to – There's a Steve Jobs quote. What does it say? Something like, "Hey, do you want to sell sugar or water? Do you want to change the world? Do you want to have parity VC account or do you want to change the work?” Put all that creativity and energy and humor into something really constructive. Not to get on my high horse or whatever. You’re doing great work. But I just wanted to say that.

Rap.fm, why didn’t it work out? Oh man! So many reasons. Well, the smart thing to say is – Or the charitable thing to say is we were too early. We were ahead of our time. Of course, no live video thing has taken off. HQ Trivia took off for a bit and then who knows what’s going on with it now. Meerkat took off. Who knows what’s going on with it now? House Party took off. I have freestyle raps in all of these platforms. It’s still my long-term dream to build rap.fm back.

In fact, I invested in a company recently that is incorporating live video into their offerings. Rap.fm failed for a lot of reasons. One of which were execution. It was my first company. A lot of lessons learned, but also I thought that this slogan internally of if you can walk, you can dance. If you can talk, you can freestyle. But it’s not true, or not a lot of people wanted to freestyle. There're still a lot of cultural barriers to getting them to try. So the market wasn't big enough and it isn't an audience that has a ton of money to spend. It was a niche business. We ran it for three years, learned a ton. Had the most fun of my life, and maybe today it could be a lot bigger. But music is a game I've left.

I remember we were talking to a very famous – One of the most famous rappers in the world, and he was considering getting involved in a tech company. It might have been Pinterest. It might have been something else. He was saying he couldn't – Or his manager was saying, “Hey, usually all these companies pay us to be a part of it. I just can't imagine why I would pay another company to get equity in it. Usually they give it free or they pay us.”

The tech person on the other line said, “Pinterest is bigger than your entire industry. Music is small potatoes, and its monopoly, and its highly regulated, and it's really hard to make work.” Music is a game I've left for s venture perspective, but as a fan and as a hobbyist, I’m still very much in the freestyle game and I like to joke that tech is just really so I can support my rap dreams.

[00:34:54] JM: What can entrepreneurs learn from rappers and vice versa?

[00:34:58] ET: I think we're talking earlier about how it's crowded market in many respects, and I think what rappers know how to do is make a splash. I think they intuitively understand what resonates with their audience. They build things people want and they're always talking to their users and they're always mixing it up. I mean, you look at [inaudible 00:35:20] the creators Twitter. You look at Lil Nax X. I mean, these people are marketing geniuses. They don't play by the rules. They create new rules.

I think if you're trying to learn marketing, if you're trying to learn distribution. They're always on the newest distribution channels, by the way. They're always trying the new things. They sort of intuitively get a sense for culture and what resonates with the truly authentic voice, and they take a position that is controversial. They're willing to have haters in order to have lovers. That's the thing that a lot of entrepreneurs don't want to do, is in order to have lovers, you also need to have some haters. Now, you don't want to pointlessly controversial, or else that won't be sustainable. But if you – Be known for something or be known for nothing, and rappers often stand for things.

I think what rappers can learn from entrepreneurs is rappers should have the same deal with labels that entrepreneurs have with venture capitalists, whereas entrepreneurs own most of the company, they get some money, but they're still able to be the owner of the company early on and be able to set the decisions and they truly become – Run and guide that entire process. I think rappers for an artist for too long have been swindled giving up their masters, most of their rights and most be equity, or most of the upside because they want the big cash payout on the upfront. In technology, you get rich on equity, not on salary, or VCs, you get rich and carry, not on salary fees. I think too in music, the labels have gotten way richer than the artists, and I think the artist can take a page out of the entrepreneur playbook in reorienting that relationship.

[SPONSOR MESSAGE]

[00:36:59] JM: If you are selling enterprise software, you want to be able to deliver that software to every kind of customer. Some enterprises are hosted on-prem. Some enterprises are on AWS. Some enterprises are on cloud providers that you've never heard of and every cloud provider works differently.

Gravity is a product for delivering software to any kind of potential environment or data center that your customers want to run applications in. Think of Gravity as something you can use to copy-paste entire production environments across clouds and data centers. Gravity is made by Gravitational, and Gravity works with on-premise data centers and on different cloud providers.

Gravity can get software to your biggest customers without the pain of developing individualized deployment systems for every single customer. Gravity puts a bubble of consistency around your application so that you can write it once and deploy it anywhere, and Gravity is open source so you can look into the code and understand how it works.

You can also listen to the episode I recorded with Gravitational CEO, Ev Kontsevoy. Gravity is built to solve the problem of software delivery. Gravity ensures compliance and lowers the cost of development. You don't have to write your code to support every platform. It is as easy as copying and pasting your deployment each time.

Gravity is from Gravitational and it's trusted by leading companies including MuleSoft and Anaconda. Go to gravitational.com/sedaily to try Gravity Enterprise free for 60 days. Gravity uses Kubernetes under the hood and the Gravitational team knows Kubernetes well. If you go to gravitational.com/sedaily, you can sign up for a free consulting session about cross-cloud Kubernetes security. This is in addition to the 60-day free Gravity enterprise trial.

If you feel like you need to get a better understanding of Kubernetes security, check out gravitational.com/sedaily for this offer of a 30-minute free Kubernetes consultation along with a 60-day free Gravity Enterprise trial.

Gravity is a system of securely delivering your applications into any environment, and you can try it free by going to gravitational.com/sedaily. Gravity Community Edition is also available on GitHub and it's free to play with. If you are curious about how Kubernetes will change software deployments, I recommend checking out the Gravity repository, and thanks to Gravitational for being a sponsor of Software Engineering Daily.

[INTERVIEW CONTINUED]

[00:40:03] JM: Do you know to what extent the music industry has been impacted by streaming in the same way that the film industry was impacted by Netflix and Amazon in the sense that now you have all this free capital flowing into the welcoming arms of the creators in the world of film and TV production? Has that happened in the streaming world or is it still just an anemic stream of cash and/or is music even bottlenecked by cash in the same way?

[00:40:42] ET: Music is bottlenecked by other things, which is basically the main thing is that the main three labels own the catalogs. For music, unlike news, old stuff is really valuable. People listen to most of the old stuff. Once you give it away, you can ever get it back. See Taylor Swift's trying to sue or get mad at Scooter Braun on Twitter and Elizabeth Warren weighing-in, etc.

[00:41:08] JM: I didn’t see that.

[00:41:09] ET: Yeah, it’s pretty funny. Down with private equity. Music suffers from – Like we’re going to need generations to pass before we can break up the monopoly, because they have proprietary rights to the most valuable catalogs.

In news, for example, there's more valuable news created every day and yesterday's news is old news, let alone the Beatles 1960 version of news. People who creates new things can receive all of the profits that come from that and don't have to pay back royalties. Not just individuals sort of equivalent of streamers, publishers etc., but Spotify is partly owned by the labels. They have to pay back the labels.

It's really very unfair monopoly that's going to take artists like Macklemore or like sort of people who are willing to say, “Hey, I’m going to own the masters of my music. When my music 40 years from now is even bigger than it is today, I'm going to be receiving that upside, not this label.” I think there's opportunity for a new label, maybe not now, maybe in a decade or so, if not sooner that says, “Hey, it's been unfair for too long. We’re going to do it differently.” I think that's really going to resonate with artists.

[00:42:20] JM: In the software world and in the film and television world, you have really big teams producing these creative artifacts. In the music world, it's still frequently just like teams of

2, to 3, to 4 people and maybe you have a team of 6 or 10 sound engineers that are polishing the final master, but my sense is that in the studio, it's still just like a couple people. Why is that? Why have we not seen the scaling of the music production process to involve more people?

[00:42:57] ET: Implicit in your question is a little bit this idea that perhaps they should scale or perhaps they would be returns to scale. I wonder if that's actually something that other worlds can learn from the music world. In technology, we're certainly seeing the power of smaller teams. Instagram sold when there were 11 people. Jeff Bezos has this quote around two pizzas teams. He likes teams that could sit around a table of two pieces, or smaller teams have greater authentic voice, have less compromise of original vision.

When it comes to making music, that is not like an assembly line or it's the furthest thing away from sort of a sufficient logistical process. It's really about the authenticity of someone's voice, of someone's message, and to the extent that you cannot have it compromised at all. If you have two people and it's an artist and it's a producer who's really just help channeling that vision, the more cooks in the kitchen, you could sacrifice that vision. I'm not an expert at the music making process, but I think that that is actually something that other fields that are determined by true authenticity can learn from the music world.

[00:43:58] JM: If you could interview any author, living or dead, who would it be?

[00:44:02] ET: A few authors of books that have really moved me come to mind. I've really been moved by Nonviolent Communication by Marshall Rosenberg and I would hope to talk to him about how we can spread nonviolent communication to the world, because as you were talking about Twitter earlier, Twitter is where the Western intelligentsia comes to fight. It's where the battle of the new ideas are formed, and in terms of conversational decorum, it's absolutely dumpster fire. Some nonviolent communication would help us have much better conversation.

Another author I would have on is Robert Pirsig who wrote *Zen and the Art of Motorcycle Maintenance* and *Lila*, and I've been tremendously inspired by the book. I've come to reread that book and I would love to talk to him about how he sees the world today.

[00:44:47] JM: *Zen and the Art of Motorcycle Maintenance*, there's a movie.

[00:44:49] ET: Yeah.

[00:44:49] JM: Who’s the best long-form technology writer?

[00:44:52] ET: Ben Thompson is the easy, easy answer. I think that Alex Danko is just phenomenal. I think that you haven't seen Alex Danko's work on his new website on the snippets blog and on his even old blog in 2013, he had this post predicting that Slack would beat Dropbox. He’s a phenomenal writer. I would check him out.

[00:45:09] JM: Slack will beat Dropbox. Those are two totally different products.

[00:45:13] ET: Yes, but Dropbox was trying to be the sort of the connective tissue and they thought they could do that through files, and Slack via messaging and chat was able to do it better. It took some of their growth.

[00:45:25] JM: What's your favorite Robert Greene book?

[00:45:27] ET: It's been a while since I read Robert Greene.

[00:45:29] JM: Do you read his books or do you just listen to his podcast interviews?

[00:45:32] ET: I do read his books. I read *48 Laws of Power* and I read *Mastery*, and I would say Mastery was probably my favorite. I'm always intrigued by people who are trying to study how great people have done so well.

[00:45:45] JM: Ben Casnocha works at your fund. He's also famous for co-writing two books with Reid Hoffman that are quite good. What have you learned about – Maybe you haven't learned anything about this, but the collaborative writing process, because he wrote these books collaboratively with Reid Rita Hoffman. I'm curious, do you have any understanding for how he does this collaborative process or anything else you learned from Ben Casnocha?

[00:46:12] ET: I've learned so many things from Ben Casnocha. Ben is a phenomenal communicator. I think one of the things people can learn from Ben Casnocha is that the power of partnering with someone really amazing early on in your career, someone who's 12 steps ahead of you and saying, "Hey, I was dedicating myself previously to building my own brand and my own learnings, but I'm going to spend a two or three year period focused on building your brand."

I remember in this blog post, 10,000 hours I spent with Reid Hoffman the Ben has, he talked about how he created an entire deck for how Reid could optimize his life in all areas, from technology, to philanthropy, to politics, to his personal life. If you do that for someone and it's compelling, they bring you on to their Chief of Staff position for a few years. Then after that, they'll likely investing in your next thing.

Having that experience really propelled Ben much further than he would have prior. I think one of the main lessons I think people can learn from Ben's career is really it might take a short-term hit in your brand. A lot of those ideas are reads, but I bet Ben did a lot of the work. There might've been some times where Ben was saying, "Oh, man. I'm doing a lot of work and I'm not building my own brand," but having the lessons that he learned through the read experience and read support throughout is tremendous. I recommend young people to follow that path. Unless you just want to build your own startup. You can go do that too. That's fine.

[00:47:38] JM: Who's the best technology journalist?

[00:47:40] ET: I think Antonio Garcia Martinez.

[00:47:42] JM: Ooh! Good answer.

[00:47:43] JM: Is a fantastic writer, a fantastic thinker. I really enjoyed Chaos Monkeys. I think it's the closest thing to Hunter S. Thompson meets Michael Lewis of Silicon Valley. I think he really gets it. He's not shy to be critical of technology. He's not shy to be critical of journalism. I think that sort of nuanced, truly independent thinker is what we need in journalism.

[00:48:05] JM: We need to crowd Antonio Garcia Martinez starting a podcast.

[00:48:08] ET: Yes. That'd be fantastic.

[00:48:11] JM: A few questions about VC to wrap up. Building a VC firm requires hiring people, obviously. How does the war for talent in venture compared to the war for talent that startups have?

[00:48:25] ET: It's interesting. There was this period when Keith Rabois joined Founders Fund a few years ago where people were saying or asking whether is venture capital going to look like the NBA free agency? We're going to have Kevin Durrant leave Golden State and go to Brooklyn Nets. The short answer is no, because GP vesting schedules are so long. That's so difficult for people to leave that much money. At the same time, the answer is also yes, because it's easier and easier to raise a fund today.

I think no in the sense of enter VC firm, probably harder, harder to do. Keith was sort of a unique situation and he saw Sarah Tavel leave to Benchmark. If the Lakers want to pick you up and you are at the Utah Jazz, maybe do that. Not to compare – Greylock is a world-class firm as well. You can say he's arguably just as good as Benchmark, but you get the idea. But it's easier and easier to start a firm these days.

Traditionally, you saw people – Sarah Tavel spent six years at Bessemer building up her chops, building up her craft. There's was this real professional VC track and a lot of people are saying, "You know what? Screw that. I'm going to just raise a fund right now. I'm going to build a following on Twitter. I'm going to raise the $3 million microfund. I'm going to rove I can do it, and then I'm going to raise a much bigger fund and institutionalize from there."

I mean, it'd be interesting. 10 of my friends, I supported them, built nano-funds this past year where they wouldn't have done it otherwise. Some of them are operators who wouldn't have had the capital to do so and others were people who were trying to get principal jobs. Didn't even get them, but were able to raise their own funds. The war for talent in VC, it's harder and harder to get young aspiring investors when it's so appealing to be able to start a find off the bat.

[00:50:06] JM: That strategy of raising micro-fund with the goal of parlaying up from there, is that a playbook that can be followed today? Who can follow that playbook today and what does that playbook actually look like in practice?

[00:50:22] ET: In the late 2000's, we saw first-round. We saw Floodgate. We saw Uncorked, formally SofTech with Jeff Clavier, and we saw a number of others who started with the original micro-funds, the OG, the seed funds, micro-seed funds become $200 million are vehicles. A lot of them have chosen to stay there. They don't want to play up in the series A game.

Then today, 10 years later, we're seeing a new class of people who were saying, "Hey, we'll take the pre-seed round," as everything's moved back the stage, and starting $10 million vehicles, $5 million vehicles, $1 million vehicle, and they're able to bootstrap off of their unit family, friends other VCs who are supporting them. The question for these firms in terms of can they bulk up, is can they get institutional support? It's one thing to get a VC, a family, a friend. It's another thing to get an endowment, a pension fund, a fund of funds, a family office, these are old boy networks for most part. These are very hard to get in touch with. They've very hard to build relationships with. They don't like to take a lot of risks.

It's a really steep challenge. I wonder of the ones I've been involved with or seen. If there's 10 of them, maybe one will have a fund three that's $50 million, because it takes a decade to build a track record. So you need to get lucky and hope that you're in the next cruise or next Plaid, which is sold today for $5 billion. But even Plaid was 10 years in. You need to build not only a track record fast, but a defensible asset. A person who's done a phenomenal job of that is Jason Lemkin at SaaStr. He's built an empire of media events content and just definitively owns the category.

I've long said, if you're trying to build a micro-fund today, do SaaStr for X. Pick Digital Health. Pick whatever sector you're an expert in. More niche the better, and go across that vertical. Say, I'm going to own all of the companies who are building in foods tech, or I'm going to own –"

[00:52:15] JM: Rap battles.

[00:52:16] ET: Rap battles. Yes. Absolutely. Huge, huge market. I'll be involved. I'll be a venture partner.

[00:52:21] JM: Last question, what early assumption did you have about managing a venture firm that you now realize is incorrect?

[00:52:29] ET: I think all the good things or a lot of the good things that people say about the job are true. It's incredibly intellectually stimulating. You get to build great relationships. You're always learning. It's not as stressful as founding a company. It's one of the best jobs in the world. At the same time, I want to splash some cold water. Running a firm is very boring. There are lots of legal and financial and accounting and a lot of back-office stuff that – It's really a lot of minutiaes that's very boring and time intensive.

At the end of the day, I think what people don't realize is that it's a financial services job. People like to think that, "Oh, I'm coaching entrepreneurs and I'm getting involved and I'm changing the company direction," and maybe you are, but at the end of the day, you're trying to make money for your limited partners and some investors get disillusioned. They were building companies. They were in the thick of it, but venture, that's just not your thing. You might want to do that, but it may not be in your interest. It might be a company that's struggling. You have to say, "Hey, I have to focus on this other company."

Now that we're seeing all these builders coming to venture, I think there is a mental switch that has to take place that it's financial services job. I think the other thing that is worth realizing is venture partnerships are family in the sense that you're with them forever. It's much harder to get out of them, and venture is just a long-term game. You could find – Start something. Cofounder split six months later. Venture – It's really hard. You want to think very carefully about how you get involved, and I'm very lucky to have people who I share values with, but I also have a lot of fun with.

Also, it's just a long-term game. Product Hunt and was able to start and be sold within a three-year process. All ups and downs the whole journey. Three years. We're almost 4 years in building Village Global and a lot of people don't even know we exist yet. We're just starting, just getting off the ground and to build a great venture firm takes a decade, maybe two decades. You got to be in it for the long haul.

[00:54:29] JM: Erik Torenberg, thanks for coming on the show.

[00:54:31] ET: Thank you so much for having me. It's been wonderful.

[END OF INTERVIEW]

[00:54:42] JM: DigitalOcean is a simple, developer friendly cloud platform. DigitalOcean is optimized to make managing and scaling applications easy with an intuitive API, multiple storage options, integrated firewalls, load balancers and more. With predictable pricing and flexible configurations and world-class customer support, you'll get access to all the infrastructure services you need to grow. DigitalOcean is simple. If you don't need the complexity of the complex cloud providers, try out DigitalOcean with their simple interface and their great customer support, plus they've got 2,000+ tutorials to help you stay up-to-date with the latest open source software and languages and frameworks. You can get started on DigitalOcean for free at do.co/sedaily.

One thing that makes DigitalOcean special is they're really interested in long-term developer productivity, and I remember one particular example of this when I found a tutorial in DigitalOcean about how to get started on a different cloud provider. I thought that really stood for a sense of confidence, and an attention to just getting developers off the ground faster, and they've continued to do that with DigitalOcean today. All their services are easy to use and have simple interfaces.

Try it out at do.co/sedaily. That's the D-O.C-O/sedaily. You will get started for free with some free credits. Thanks to DigitalOcean for being a sponsor of Software Engineering Daily.

[END]

