EPISODE 1192

[INTRO]

[00:00:00] JM: For startups that are still seeking product market fit, pre-seed investments are critical to funding initial investments in the product and in the infrastructure needed to build out. Afore Capital is a pre-seed fund that invests in innovative companies across a wide variety of verticals. Afore focuses on startups with unique product insights and novel distribution approaches.

Gaurav Jain is a co-founder and managing partner at Afore Capital. Before that, he worked with the android team at Google. Gaurav joins the show today to talk about the risks and rewards of pre-seed investing and about how founders and investors can find opportunity in the current venture environment.

[INTERVIEW]

[00:00:47] JM: Gaurav, welcome to the show.

[00:00:48] GJ: Thank you for having me. It's a pleasure.

[00:00:51] JM: You're the co-founder of Afore Capital, which is an early stage investment company. What was the thesis when you started Afore?

[00:00:58] GJ: Yeah, great question. So both my co-founder, Anamitra Banerji and I, have been investing in venture now for almost nine years, and we were both – I was at a seed fund. He was at a Series A fund. And one of the things we noticed in the kind of four years we were at these funds is that the goal posts for early stage founders kept shifting, right? So if you were trying to raise your first million, two million dollars, pre-product market fit when you have little to no traction, it was getting harder and harder to raise that capital. Not from angels and scouts. There's definitely been obviously an explosion of that, which is great for the ecosystem, but none of those investors usually lead the round.

So if you were to go to a seed fund or a Series A fund, for them to lead you around price to term, so on and so forth, they were very often telling founders like, "I like what you're doing. I like your background, but you're too early for us." Go get some traction. Go build a product a little bit more and then we can invest."

So we saw this firsthand and we said, "Oh wow! There is a problem. There's a gap there, because, A, personally, just from our passion, it's we love getting involved very early and love helping founders. But we think there's a problem here to be solved. So as typical founders, when you see a problem and feel like nobody else is solving it, the best way to solve it is to go after it yourself. And so my partner, Anamitra and I, we left our previous funds in middle of 2016. We raised our first fund in the fall and the rest is history.

[00:02:26] JM: If you go back before that, you were an early product manager for android. What was it like being at Google in the early days of android?

[00:02:35] GJ: It was a lot of fun. Like looking back, obviously android has come a long way when I joined android in 2009. It was like a skunk works kind of projects on the side. I mean, look, for Google, they built a massive business, right? And online ads in the early 2000s, but it was pretty clear by '07, '08, that mobile was going to be the future, not desktop.

So for Google, mobile was a potential existential threat, right? If Apple was a dominant – Or the way that most people accessed mobile, if that was Apple or the carriers, right? If Verizon, et cetera, like they owned the customer relationship, that would be very problematic for Google, right? Because the reason Google's been able to really flourish is there is no sort of tollbooth, if you may, for the internet, right? And anybody can spin up a website and you can start to make money directly with consumers.

But mobile was potentially going to be a different dynamic. So when I joined android in 2009, we essentially had a blank check from the management at Google to say, "Look, this is potentially going to be an existential threat for the business. We need a horse in the race, right? We need to have something where we can compete with Apple and have a dominant position or at least one of two or three key players." So that was kind of the mandate. I had worked at Blackberry back in the day. And I started a company in mobile as well and building software for smartphone platforms. So I had sort of seen the movie before. And, really, we put frankly one foot in front of the other. I was the lead VM for the Nexus product line, and that was our way to really put android on the map, because when I joined, android already had already launched a couple of phones. But it's always considered this like sort of fourth operating system after Blackberry and iOS and maybe Windows mobile. Has this like geeky operating system, open source, right? It's like on the fringe. And we were really trying to show, demonstrate to the world that Android has come a long way, and it is a very formidable competitor to iOS.

So the Nexus one was something – Google, we paid for that product to be developed by HTC in that case. We were closing with the carriers to bring that product to market. We tried to sell the phone online ourselves. That part did not work because we realized people still like to buy the phones in person after playing around with it.

In the two years that I was there, android went from – When I joined, less than a million total users to, by the time I left, we were getting about a million new users a day. And that kind of scale, first of all, you only see it a few places. And in hindsight, it's sort of 2020 and you can sort of say like a bunch of things we did right. But in the moment, we were just running around with their heads cut off and trying to figure out how to compete in a very fast-growing world.

[00:05:19] JM: When you look at android as an early platform that you worked on, what are the platforms that you see today as being early that will look much, much bigger in, say, five to ten years?

[00:05:30] GJ: Yeah. You know what? What worked for android is we had the right balance of being open enough so you can get widespread adoption, right? And companies can – In our case, it was the handset and manufacturers, right? The Samsungs, HTC, LG of the world can customize it enough to make it their own, right? Because the problem that we identified that we could solve was that these handset manufacturers, they were getting their lunch eaten by Apple and they wanted to have a competitive phone and be able to launch many at the same time very quickly. But building an operating system from the ground up is hard, and then maintaining that, and then the developer ecosystem. All that stuff is very hard. And we felt that we could play that sort of unifying role to have that alternative to Apple. But at the same time, these manufacturers want to be able to customize the product.

So not all phones look the same. So if you pick up a Samsung phone versus an LG phone, the interface feels very different. So to an end consumer, it feels like these are very completely very different products even though the 98% of the guts might be very similar. So you need that level of flexibility and openness, but at the same time if it's too open and if there were a million forks, right? Which is a problem android has still struggled with. But if it goes in way too many directions, it sort of loses some leadership where you could mandate certain level of consistency and predictability, because one of the things we did, for example, with the developer ecosystem is to say, "Hey, look you have to abide by certain rules." And then you get access to the developer ecosystem, which makes sure that the end consumer gets a relatively good experience, right?

And it's a fine balance, right? It's a very fine balance. And I think android has struck that well. And I think similar platforms have an opportunity to potentially capture an opportunity of the size of android. So then you see like Snowflake, for example, we think potentially could be a data platform, right? Where interesting applications get built on top of that, right? They have, I'll say, the hunting license, right? Because they have the data. And now I think it's up to the developers to figure out what they can do with that data or potentially Snowflake as well. But I think that's a really interesting one.

I think Zoom potentially could be an interesting platform as well. It's very clear that post the pandemic, work is going to look very different especially for information workers, right? I think remote is going to become a very integral part for most, if not, all companies. You've already seen some of that trend in the last few years. I think, obviously, COVID has accelerated that quite substantially. And there will be a platform where we will be able to build apps on top of to be able to cater to that new normal, right? Because if you just take the tools of today, the collaboration tools and video conferencing tools and just try to force fit that to a remote workforce, it just doesn't work.

We somehow got away with it this year, but as this becomes a new normal, I think that world looks very different. So it assumes opportunity. Are they going to be able to capture it or not? I don't know. I wrote this, published it a few months ago. Sort of the headline, “Will Zoom be the next android or the next Blackberry?” I think Blackberry did a really poor job frankly becoming a platform and is very close-minded and really empowering the developers. And I think obviously at android we had a very different mindset and obviously the outcomes are very different. And Zoom I think is that fork in the road, right? And still TBD and which one they pick. Again, it's a tough act to be open while not completely losing your shirt. So we'll see. But the opportunity is there. So I think those are a couple that come to mind. But I think any kind of platforms that exhibit that level of balance and opportunity I think could be really interesting.

[00:09:29] JM: Not to take this too far. I can definitely imagine a lot of things being built on Snowflake as a data platform. It's harder for me to imagine what gets built on top of Zoom?

[00:09:38] GJ: Zoom has done a really, really good job at fidelity of the video, latency and some things that are very technically challenging, right? I mean Zoom wasn't the first video conferencing platform, but you try some of the folks that have been around far longer than Zoom, and the quality sucks, right? It's sort of why Zoom has really taken off this year. I mean Google Hangouts – When I was at Google, we were working on Hangouts, right? This was 2009, 2010 timeframe, and obviously lots of other competitors.

So Zoom has solved for some of the harder technical challenges, but you can imagine, like in the future, like why is – Look at first principles, right? Why is the office such a special place? It's because of the sort of ambient collaboration, right? You're sitting around your co-workers.

You can sort of just quickly roll over your chair over and ask a question. You can jump in a huddle room and talk through stuff.

Obviously in a remote environment that becomes much harder, and it's harder because today you have to send somebody a Zoom link and then they jump in a Zoom call. And like it's hard to whiteboard stuff. You don't really feel like you're in the same room. So can you imagine like products over time that allow for that? So you and I might be sitting in different parts of the world, but we feel like we're in the same room. And I don't know exactly what that looks like. I don't think it's necessarily a VR headset or something like that. But some entrepreneurial founders will practice, absolutely. The opportunity is there. And I think Zoom could be the sort of the guts that enable that, because it's hard. Nobody wants to solve the technical challenges that Zoom has solved if we could just sort of piggyback on that.

Same thing you saw with Amazon, right? I mean when AWS launched and S3 and stuff, it was probably hard to imagine that there’d be some massive explosion of startups being built on top of that, right? And I think similarly, I think the opportunity exists for somebody like Zoom.

[00:11:28] JM: And I can imagine them, but I want to hear what you have to say. As far as Snowflake being a platform, I think this is really interesting because I don't think we've really seen a company like this in the post-cloud era, a company built on top of AWS that really has the vitality needed to become a massive platform. The closest thing is sort of Heroku maybe, or Firebase. You were an investor in Firebase, so maybe you have some familiarity there. But I think the scale of Firebase is very different than the scale of Snowflakes just in terms of the volume of data and enterprise penetration. So what do you think about that? Like what's the green field or the blue ocean opportunity for Snowflake?

[00:12:14] GJ: For. I was always an early investor in Firebase and I've seen that journey and you didn't mention Heroku, and they're both great products. There were great sort of levels of abstraction, right? So developers don't have to deal with some of the complexities in Firebase's case to build real-time applications, right? What is special but different about Snowflake is that it's not just a level of abstraction, but it's a data warehouse. It have access to data, right? Because the companies are using Snowflake who've already dumped the data into Snowflake, right? So not only do you have computing power and tools, but you also have the data, and I think that's an amazing combination to be able to then build apps on top of.

So I think the opportunity for Snowflake, and we'll see exactly how this pans out, is to frankly build an app store or make it very easy for developers to build on top of that. You had one of our portfolio company founders, Hightouch, on your show earlier. And they're an example of a company that is going to enterprise customers and saying, "Look, you've already gotten data in a data warehouse," and in your case might be Snowflake. And you've got all these SaaS apps that would love to have to be able to enrich their data. The data it's already sitting in Snowflake. And if we can make it easy for you to be able to extract that data so you don't need to have a technical background to be able to now use the Snowflake data, wouldn't that be very powerful?

So I think there'll be an amazing number of companies that get spun up potentially if Snowflake makes it easy and they really invest in the ecosystem, the developer ecosystem. That could be built on top of Snowflake in ways and use cases that frankly we haven't even imagined yet. And that gets us very exciting, right? Because, again, the hunting license is there, right? The ingredients are there. And now we just need a bunch of founders to go take those ingredients and make something delicious.

[00:14:06] JM: I'd like to talk a little bit about the world of data infrastructure since we're on that topic right now. I started the podcast five years ago, and data infrastructure was kind of a mess back then. It seems like it's still kind of a mess. There're a lot of different ways that things can be built. And Snowflake represents like the solution of sort of let's give this entire responsibility to a vendor where we can throw all of our data into the data warehouse. We don't really know what this data warehouse solution is doing under the hood. Like I did a show with Snowflake two or three years ago and the complexity of what they've built is just tremendous. I mean the guest couldn't really scratch the surface of the levels of caching and all the different techniques that they use to make Snowflake fast and performant and also somewhat cost effective. I know it's expensive, but it's somewhat cost effective. This is just kind of a rambling way of saying do you have any predictions for this heterogeneous mess of data infrastructure? What this looks like in the next 5-10 years?

[00:15:14] GJ: Yeah, as you pointed out, it’s gotten easier and harder kind of at the same time. I think that doesn't go away, right? Because it's sort of like playing whack-a-mole, right? As we invent new ways, like let's say Snowflake for example, to now be able to have data in one place and be easily accessible and so on and so forth. But then that creates all kinds of new challenges or opportunities depending how you look at it. And I think that continues, right?

To give you another example, and you had Dmitry from Iterative, one of the portfolio companies on your show as well, right? They're trying to solve kind of that workflow as you're dealing with data, right? They’re building these AI models and machine learning and so on and so forth. Like that spins up a whole lot of data. And every time you make a change to a dataset, like now you've got to version that and be able to have a full catalog. So they're trying to solve that problem, right? And when you solve that, some other problem kind of creeps up.

So I'm not sure if like wherever “done”, and I think that gets us excited as investors. And certainly as founders, they should feel the same. So hard to say exactly like which direction it goes besides like you've just got to look at, “Okay, what opportunities have been created by this sort of new paradigm shift?” In this case, we're talking about Snowflake. And what can be built on top of that. Or as founders, like let's say Hightouch start to solve that? Like what other problems will they face? And can we go solve those?

We've always taken a more founder-led sort of view of the world when it comes to investing versus market-led, because at our stage, when we're investing in kind of two founders with an idea, what we look for is like are these the right founders to back and what's the insight, right? What's the insight to get to “first base”? For the for next 12 to 18 months, can they get to traction? And because we think it's really like market sizing, I think is a terrible exercise at our stage, because you'll talk yourself out of opportunities because the market may seem small because it's early. If you look at building on top of Snowflake, you may say, “Well, there's not that many companies buying that kind of product.” So like probably a small market. But we think that's sort of where the best founders are enterprising enough to expand markets. So sort of the view we've taken on data infrastructure.

[00:17:37] JM: Where do you draw the line for markets that you do and do not understand in early stage? For example, my sense is that you probably steer clear of crypto, because crypto is just too domain-specific. It's too difficult. I think investing in crypto at this point is almost like investing in hardware companies, because the markets become so complicated. But fintech companies, for example, there're a lot of fintech stuff that's complicated. There's a lot of fintech stuff that's less complicated and easier to just understand by looking at a spreadsheet. Where do you draw the line between an early stage investment that is comprehensible to you and one that is not?

[00:18:17] GJ: I think if the founder or founders can succinctly articulate why this is a pain point worth solving or what the use case they're going after or how what they're building creates utility? That's totally game for us, right? Now we may not agree or get excited about it or not feel that it's a personal fit for us, but that is ultimately what we're really trying to understand. So it's less kind of along the lines of like, "Well, fintech's really interesting and maybe crypto not." Because were very first principles-driven. So what we look for in, for example, potential crypto investment is, again, what's the use case? How does crypto enabled this use case to be solved that you couldn't before? And maybe it's a blockchain, not necessarily crypto. And we're totally open-minded, right?

And, of course, if it's like very, very deep tech or if you're inventing a molecule or something like that, if you need a science background to be able to understand or help these founders, maybe we'll bow out. But I'd say it's a pretty wide net on – Because if we can't understand it, I think can the customer really understand it? And I'm a software engineer by training and so is my co-founder. So like we should be able to understand it, right? If you're selling to developers or if you're selling to a business stakeholder, and if you can understand it, then if it's a fit for the fun, you'll want to invest.

[00:19:47] JM: Speaking more about fund dynamics, there has been a massive increase in the number of early stage funds. What's been your way of dealing with competition for deals?

[00:20:01] GJ: So I think if you zoom out for a second, it certainly looks like there are a lot of funds. But more importantly it looks like there's a lot of money going into venture, right? So it may seem like there is a lot of competition. And certainly there is competition. But when you zoom in then, at our stage of companies that are essentially prototypes, not much more, you usually don't have any customers. Maybe they have a pilot or two at best, right? Or if it's an open source product, they have not many users or contributors to the codebase. Like that stage, there actually aren't that many investors. And I'll tell you why. Because most investors, especially ones that focus on post-traction companies, seed, Series A, Series B, they are very market-driven, right? So what does that mean? They try to analyze and say, "Hey, is this potentially a multi-billion dollar market or larger?" And only then will they want to make an investment, because of their fund size, they're looking for those massive outcomes, right? The market is not going to be tens of billions. It's hard to build a multi-billion dollar company in that.

Whereas at the stage where we're investing, it's really actually hard to figure out what market these companies are going after, right? Because in my experience, like the best founders have expanded markets in ways that even the founders couldn't imagine. And the stage we invest, like there actually isn't a lot of competition because of that reason, because there aren't a lot of founders going after or not a lot of investors are backing these companies. And the markets are early.

So at the stage where we're leading these deals, we'll write an average of 750K to a million dollar check in these rounds that are usually a million to a million dollars in size and we'll work with scouts and angel investors. Like there aren't a whole lot of funds that have made it that are business models. Like any fund, if you ask them, they'll point to a few examples where they have done what we call pre-seed. But to do pre-seed as a business model is to exclusively focus on that.

There are a few but there aren't a lot of fun. Certainly, if you compare to the number of companies at that stage, even if you look at a funnel, right? We're at the top of the funnel. It's where it's the widest. It's in most number of companies. And then obviously not every company makes it all the way down to an IPO or some massive outcome. So relative to the number of companies, there are relatively few funds. So we are more focused on the investments we make. How do we try to get good at it to make sure those companies are really good? Versus having to fight with our peers to win deals that they also want to do. It's rare that we get into a bidding war with a tier unlike Series A funds. I mean you talk to a company that has had a “hot round”. They probably got like a dozen term sheets, because every fund wants to get into that deal. And then of course it becomes a bidding war and so on and so forth. Like that still rarely happens. That may change over time. We'll see. But it rarely happens at our stage. It's more of a question of between my co-founder and I, I think we closed to 3,000 deals this year and we're only going to get to invest in 10 or 15. Like how do we make sure those 10 to 15 are the best 10 to 15 of that lot or at least some of the best?

[00:23:19] JM: so you do pre-seed investments, and I wonder how the size of the investments that you need to administer scales up with the size of a fund. I think your most recent fund is 124 million. Is that right?

[00:23:33] GJ: Yeah. So we have 124 million under management across two funds now. So fund one, which we raised in 2016, is a 47 million dollar fund. And then fund two, which is we're investing out of now is a 77 million dollar fund.

[00:23:45] JM: Okay. So what kind of check size do you have to write and how many bets do you need to make to have the fund mature at the rate that you want it to?

[00:23:56] GJ: Definitely. So fund 2 will end up having probably about 30 to 40 core investments. And what does that mean? So in a core investment, typically we'll write a 750K to a million dollar check at pre-seed when these companies have little to no traction, usually just two founders, and get 10 to 15 ownership in these companies. And then we reserve about half the fund for follow-on investments in these companies.

So the hope is and the portfolio construction is such that at exit we can own about five to ten percent of these companies. So with a 750 million to a billion dollar outcome, which I say with utmost humility, because those are still very hard companies to build. But when that happens, and hopefully it happens at least once, if not a few times, in our fund 2 portfolio, you essentially return the fund and hopefully then some. And of course if you have a much larger exit than that, and what's interesting these days is we're seeing the outcomes for tech companies just getting larger and larger partially because the tam is getting larger and there's more willingness to pay. And of course what's happening in the macro with low interest rates and not much growth anywhere else in the ecosystem besides in tech, like for a whole host of reasons, these companies are valued quite richly. If we can be lucky enough to be in one of those companies, like that returns more than one extra fund.

But the idea is if your top five to ten companies will drive the vast, vast majority of your returns, right? So we very much subscribed to the whole power law theory and we certainly are starting to see some of that in fund one, right? We're about a handful of companies that are driving over the fair market value for fund one. But the idea here is that you got to keep the fund size small enough such that a billion dollar outcome can return the fund, but also large enough so you can take a lot of risk, right? For us to write a 750K to a million dollar check, when the founders have a vision and insight and a pitch stack and maybe a prototype, like that's hard if you only have a five million dollar fund, right?

And so we wanted our fund sizes to be large enough where we're not losing sleep just because we wrote a check. We lose sleep when the companies don't do well. But at the time you write a check, we should feel excited. So we think it’s the right sort of balance of the two.

[00:26:28] JM: There's a thing listeners may or may not know about, pro-rata rights, where you retain the percentage of your investment by allocating more capital to investments in further rounds. Do you need to make pro-rata rights? Do you need to have pro-rata rights in your investments, in the early stage investments that you make?

[00:26:49] GJ: It's a pretty standard right. And let me just explain quickly for your audience. So the idea is let's say we got 10% ownership up front in your company at pre-seed. So when you raise the next round, typically a Series A or sometimes a Seed, we would like the opportunity to invest, again, 10% of that round. So let's say you're raising eight million dollars, eight hundred thousand dollars in that round to be able to maintain our 10% ownership. And it's a pretty standard right. It's been around for a long time.

So what's the rationale behind it? The idea is because of power law, only a few companies are going to drive majority of the returns. And, upfront, obviously we don't know which one of those it'll be. Otherwise we wouldn't invest in the other companies. But when it becomes a little bit more clear that these companies will be the winners, we'd like to participate in the upside along with the founders.

Now while we [inaudible 00:27:45] contractually we get this right when we make the investment, we don't think of it as a right. We think of it as a privilege. We think of it as something that we have to work really hard to earn at the next round, right? So we don't take it for granted at all. And in some ways the work we do between the pre-seed and the next round or the next round or the round after that, we don't get paid for it. We're not on the payroll of the company. We don't get any more equity for doing that work. We don't look for any options or any of that stuff. The way we get paid is through exercising this pro-rata right.

And if we've done a good job, if we have helped you hire your first head of sales or helped you fundraise for your next round, if we've been there at 11 p.m. when you wanted to talk about some personnel issue you were having or whatever it is, hopefully you'll consider sharing a part of that new round with us so we can continue to participate in the upside. Again, we're investing in the next round, of the next rounds terms and prices and we're not trying to negotiate the docs, any of that stuff. We're just going to be investing alongside the lead. Hasn't been an issue. And, again, we see this is a two-way street. And most, if not, all founders are happy to share that with us because they see the value we've been able to bring to the table since the investment.

[00:29:04] JM: Has the complexity of investing increased as the fund sizes have increased? So it's just been two funds? You've only done two funds at this point?

[00:29:14] GJ: It's typically a three-year investment period. So fund one was 2016 to 2019 and then we started investing out of fund two last year.

[00:29:20] JM: Okay. And has the complexity of running the firm increased as you've gotten a second fund under management?

[00:29:29] GJ: Not exactly. I mean it's the same thing we've been doing frankly since we started Afore, and frankly even before that, right? Which is finding the best founders, quickly running a diligence process to get a sense of do we think the world needs this and can these founders build what the world is looking for? And would this be an interesting company to be a part of? And then looking to obviously help the founders post-investment and typically recruiting, going to market and fundraising. That hasn't changed, right? The check sizes have scaled a little bit because we've have a larger fund now. And that was actually frankly a reaction to what we were hearing from founders, right? When they wanted to raise a million to two million dollars, they said, "Look, the hardest thing is finding a lead," and a lead means that you write at least half, if not more than half of the round.

And if you only have a 47 million fund, it's hard to write million dollar checks at that stage. So we said, "Okay, we need to scale up the round size," and hence the fund a little bit. Frankly, it's the same portfolio construction, same strategy, same kind of founders and companies we're investing in. Yeah, obviously, when you have more portfolio companies, just by a function of time, there is more work there. Typically, our sort of SLA with founders is, "Look, the 12 to 18 months post our pre-seed investment is when we are going to be the most active investor you ever will have on your cap table and we'll be super hands-on where we can be helpful. We have a shared Slack channel with all our founders. We're on text messaging, WhatsUp. Whatever it takes, like we're there as an extension of the team for that 12 to 18 months. And once you "graduate" where you've raised a bigger round, you've more investors around the table, you've now formed a proper board, we'll sort of peel off and we'll be more in the background.

But we still get calls from those founders three, four years post our investment, because we were there. We were the first ones to believe in them and to back them, and we've had that special relationship. And now that we're not necessarily on their board, they feel more comfortable opening up and talking about certain things that they can't talk about with their series investor. Who they may be pitching again for Serious B, right? So we still get those calls and that certainly adds up as you have more portfolio companies. But we've been able to load balance so far, and I think as we keep making more investments, we'll have to obviously scale the team in terms of some of that operational support. But it hasn't been so much of a challenge so far.

[00:31:49] JM: There are I think at this point what I would say conventional strategies to running an early stage firm. And in terms of what you keep for reserves, reserves are what you will you leave to have follow-on capital in the existing companies and all kinds of things around how you manage the firm. And know like you said, there's the three-year time horizon, for example. And I think these strictures kind of make sense because you have so much variability in terms of the judgment over what deals you're actually going to end up doing. People have widely variable judgment over what early stage deals are worth doing. But do you have any perspective on things about actually like running the firm, managing the managerial strictures of the firm that you've done in an unusual fashion?

[00:32:40] GJ: I think one of the things that comes to mind by the way is that we have deliberately chosen to keep the fund small in terms of number of people. So it's still the two of us that started the firm that are on the investment team. And we were very small support staff, right? Because we believe that GPs should do all of the work. Everything from sourcing, to diligence, to supporting the portfolio, founders. And it's hard to “just sort of delegate the founders to somebody else”. We do look for some support when it comes to, for example, recruiting and building up a funnel for hiring for some of our portfolio companies or when it comes to business development. I think we can certainly get some help there. But Anamitra and I still do bulk of the work, right? And we are still the first call for our founders directly to our cellphones.

And so I think that is just a different feeling where it's more of I guess a cottage industry feeling versus an industrial scale where you see a lot of these funds with – You go to their websites, they have like tens and hundreds of people on their website. And that's a different strategy and it works for them. It's what we feel the founders are not looking for at the earliest stages, right? When it's their baby is still very fragile and it's still not fully formed and they want to work with people, not a firm. And certainly as the company scales and there's that management team and two three layers of hierarchies, sure, you can work with a more industrial scale farm. But we believe at the earliest stages.

And so we've maintained that touch so far and hopefully we can retain that even as we have more portfolio companies and more funds. So I think that's probably one thing that comes to mind right away. And the second thing is also not being thesis-driven. A lot of funds you'll see, say, "Okay, we're investing in –" I don't know, dev tools, data infrastructure, SaaS, whatever, consumer fintech, what have you. And strategy works for them and that's great. We had chosen very much to be founder-led and said, "Look, let's find the best people and have them point us to opportunities." And if they're authentic, they would have seen an opportunity because of where they were in ways that we can't, right?

So the folks at Hightouch, for example, came out of Segment, right? And they saw how Segment was putting data into the warehouse and they're like, "Well, what about data coming out of the warehouse? What could be done with that?" Or the folks at Firebase, "We're building a chat app first," and realized building a chat app is really hard from an infrastructure perspective and said, "Okay. Well, other people also face this complexity. Let's focus on that," and then hence became Firebase.

So we look for those like authentic founders versus being piece instruments. So if you look at our portfolio page, it feels like it's a random smattering of companies all over the place and it's just because we believe the opportunities are everywhere. And founders are going to build all kinds of interesting companies in weird and different spaces. And I think that will probably will continue to be the case.

[00:35:38] JM: The seed market reached an interesting – Maybe you would call it a natural evolutionary point recently where you have the super angels or – I don't know what you call them, the super mega angels? These people like I guess Elad Gil was one of the earliest people that fit this bill. And then there was Lachy Groom who came recently. But these people who raised like 100 million dollar funds, and it's just one person basically. There's like a face of the firm.

And part of the thesis behind this super-duper angel class of investor person is that you actually don't want these services firms, or at least in many cases you don't want a services firm. You actually want the firm to get out of the way entirely. You kind of want this agent to deal with. You want to deal with Elad Gil or you want to deal with Lochy Groom, but you don't really want to deal with this mechanism, an entire firm. I'd like to get your perspective on why these solo investment people are able to take gigantic portions of a round where almost it's kind of baffling, because you got to ask yourself, "Well, if you're going to give away a huge percentage of your round, if you're a notion and you're giving away a huge percentage of your round, why are you giving it away to one person? Why wouldn't you want to give it away to a big services firm?

[00:37:05] GJ: Yeah. If you can go back to first principles and really try to understand what is a job to be done when you raise, let's say, your first round of capital? There're a few different things, right? Of course you need the capital to scale the business. And in that case like whether it comes from a one-person pharma services firm or something in the middle, it doesn't matter, right? The dollar is as green as anybody else is. Second thing could be advice, right? Okay this person's been around the block. Perhaps scaled a company or has been an investor for a while and companies that I admire. So generally just being a sounding board. It could be for the services, right? It could be for credibility as a social kind of signal to say, "Oh, I raise money from X. So I must be onto something." And it makes it easier for recruiting, perhaps sometimes customers, introductions to potential customers, so on and so forth. There's really other things too, but those are sort of few that come to mind right away.

I think the upside of taking money from who's potentially a sort of a mini celebrity, if you may, is you get the benefit of that credibility piece to be able to say, “Well, here's other companies this person invested in.” And then they picked me or picked my company and then it must be good. And some of that might be just for ego purposes. You feel good about yourself and looking. And look, early stage, I've been a venture back founder. You're looking for validation, right? Because you took this massive risk of quitting what was probably a very high paying job with stock options and all that kind of stuff. And instead you're taking this risk on an unproven idea, especially if you’re first time founder. Like more things are going wrong than going right, right? And on top of that there's the emotional stress and mental well-being, all that kind of stuff, right? And then on top of it, your friends, it seems like they're crushing it. They're raising tens of millions of dollars or they're taking companies public or selling companies or what have you.

So the validation piece is actually important for those founders, and I think that's probably partially why those investors are able to win some of those companies, some of those potential investment opportunities. And some of that is also advice, right? Some of these folks have been in the eye of the storm and have learned a lot from experience, which as a first time founder you can benefit from.

Our perspective on this is I think we believe sort of the global maxima is somewhere in the middle, right? We don't think you need to be a full-on services firm with hundreds of people on staff mostly because the best founders are frankly fairly independent, right? They are resourceful enough to figure out how to hire. They might need some leads from you, but if they're depending on you to hire people, like you've got a bigger problem. Same thing with business development and sales, right? They’re resources. They don't need you to hand them customers. Intros would be great, for sure, especially early on, but eventually they’ll figure it out themselves.

So we don't think you need a full-on services firm. But at the same time, like being just a one-person army and having a lot of portfolio companies, like no matter how hard I work I still have 24 hours in a day. Like there's really not much you can scale, and we think having some support behind you does help, right? Again, it's that 80-20 rule. We think we can capture 80% of the value without 20% kind of the services or effort here. So we think that's the right strategy. Look, every founder is different has different kind of desires and preferences. And we might not end up being a fit for some of them, but we believe if we can offer you that, of course, the money, the credibility. Now my partner and I have invested in over 100 companies and some of them have been worth billions of dollars and we've learned a lot through that experience. We have portfolio companies we introduced you with potential customers. We have a wider network as potential customers. We can help with recruiting. We feel like we can help you across many different vectors to position you in the best way possible for the next round. But look, ultimately, the best founders are going to build those companies because of their execution or not because who they took money from, right?

And that's why you see successful companies having raised money from all kinds of different firms and not just one or two firms because, again, the locus of kind of influence and value creation is inside the company, not outside, in our opinion. So you'll see different models work. But I think ultimately the best founders build the best companies.

[00:41:33] JM: Is there anything in particular that you're struggling with today that you didn't struggle with earlier, or are the difficulties just in the judgment process of individual companies? What are the difficulties of running Afore today?

[00:41:46] GJ: Yeah, for sure. So one of the things that happened as a side effect of the pandemic and the lockdown, and hence no travel, no vacations, no commuting, everybody is kind of 24/7 available, is that the fundraising timelines have shrunk even further, right? So rounds are getting done at breakneck speed, right? We've had many instances where we've had to go from start to finish on diligence within a week, right? And we're a small firm, so we can move really, really fast. We don't need to wait for Monday partner meetings. We don't need to get like six partners on board to sign off. Like we're very much conviction based, not consensus based. Both of us always meet the potential founders of companies. But one of us has a lot of conviction, like the deal gets done.

So we can move fairly fast, and we have. The challenge a little bit is on both sides. You don't really get to know each other that well, right? Because A, it's on Zoom. And then B, you haven't had a chance to spend that much time together and really get to know the story behind the story. And it is where what the reality is today, and we don't make the rules. We have to play by the rules. And if the deal's moving fast, we've got to play ball. But I think TBD and exactly how that sort of – What effect does it have in both quality investments for investors, but also quality of investors that the founders took money from. As I tell founders all the time, you can't fire your investors from your cap table. And if it's going well, a 10 plus year journey, right? In the best case scenario, maybe longer. And if your investors, if you bring out the right investors, you'll want them from across many journeys, right?

So like, for example, I am an investor in Firebase and the founders of Firebase are investors in Afore, but also we invest in their new companies, right? So like that kind of it transcends just that one company. So yeah, I guess I'll encourage founders and investors to do is like certainly take the time, because it is a massive decision that is, I guess, Bezos calls it like – What is that? Type one decision where it's a one-way street and you can't easily change it. So is it a struggle? No. But like it's not something that's I think ideal for everybody involved, but it is what it is and I probably don't see that pace changing anytime soon. And I think, certainly, obviously more money sloshing around the ecosystem has probably also exacerbated the problem.

And then to compound that, again, there're an incredible number of companies getting started. And as our brand gets stronger, we are lucky enough to see more of those companies. So as I mentioned like between the two of us, we've run a lot of programs this year as well to service founders. So, for example, we ran a zero to one program, which is a six-week boot camp for early stage founders. We run angel to fund manager program to help emerging managers. We host the annual Pre-Seed Summit. We saw like something like 3,000 companies this year, right? And a lot of them are very high-quality. And not only is it hard to obviously do justice to the diligence process for these companies, but we also miss a lot of really great stuff. And it's really hard to say no to so many companies because we can only invest in 10 to 15 every year.

So, look, it's a great position to be. I always want to meet more founders and meet more companies. But on the flip side, it’s just you have to also very quickly make almost a snap judgment to say, “Okay, is this like out of 3,000? Are these like the 200 companies that I can do meaningful diligence on this year and the 2,800 I just had a quick no?” And a lot of times we're wrong. But that's just the reality of our business, and obviously I love what we do and I wouldn't want to be doing anything else. But we go to work every day kind of with that humility of like we're going to get it wrong a lot, and that's just something we have to live with.

[00:45:30] JM: And how do you feel the job is going to evolve at the next fund level? Like I mean I imagine the next fund is going to be even bigger. Do things change at that point?

[00:45:40] GJ: I think at a high-level, the answer is no. Both Anamitra and I absolutely love this stage of kind of company formation and when and it's such an amazing feeling to now see some of our companies that we backed a few years ago have hundreds of employees and tens of millions of revenue and like creating an amazing amount of value. So that's sort of the gratifying part of our job. So we're going to keep focusing in our stage. And we don't see that changing. We're probably going to keep the team fairly small. And there're certainly some tweaks. And we’re engineers and product managers are heart and we're constantly iterating on our business model and how we execute on everything about our business. So there's a bunch of stuff that we've learned from this year that we want to do differently and how we can support our portfolio founders but also how we can support the broader community and how we can leverage our position and the vantage point to help the broader ecosystems. There're a bunch of ideas we're going to execute on next year and the year after that. But I think at the core, we feel, A, we love what we do and we feel like it's the right fit for us personally, but we also feel like it's a place where we can create value, right?

I think we started to fund four and a half years ago with a hypothesis that based on the data we saw on the ground, there was a problem to be solved, and we feel like you know we've run into something real based on the feedback we get from founders. So we want to keep doing that and hopefully have a chance to back more incredible founders that will start companies in coming years.

[00:47:11] JM: Cool. Well, any closing predictions for the near-term changes of seed investing, early-stage investing or technology in general?

[00:47:23] GJ: Look. I think obviously 2020 was a year that started off as “just another year” and ended up obviously being anything but. And I don't think we fully internalized what impact it will have on the world beyond obviously the health tragedy that it is and we're still living through. I think it's going to have ramifications for years, perhaps decades to come, and some good some bad obviously. And I think being in the tech world, we will be probably more of a beneficiary than anything else, right? We certainly have seen in 2020 sales cycles accelerate, right? Cloud adoptions accelerate, right? Some of the trends that were already in play prior to COVID-19 and just accelerated.

So we expect more of that to happen in 21 and 22. A lot of the new behaviors will stick, right? And I think that creates a lot of opportunity and the market sizes get bigger. So I don't know if there's anything necessarily new. I think we touched upon earlier a little bit on remote work or the future of work especially as it comes to the information economy. I think that's something that we've been thinking a lot about and sort of what does that paradigm shift look like. And it's going to be something frankly we haven't even seen or imagined yet. I think tools like Slack and Zoom were great extensions of kind of work was done prior to COVID-19. But I think post-COVID-19, works going to get done very differently and we’ll need new kinds of tools. So I think that's an interesting area to innovate in or to be tracking. And of course, everything under the hood, right? Where you're seeing the dev tools and microservices and all those trends again just keep kind of chugging along.

We think privacy and sort of obviously the flip side of creating a lot of data, and we talk about Snowflake and stuff. Like what are the privacy and the ethical implications of that? I think that's potentially some interesting area to watch, right? We're starting to see companies in the – How do you explain these AI models or how do you make sure that there's no implicit bias in this? Technology is now affecting more and more of real life, right? I think it’s going to become important, right? I think we'll see big tech really not struggle, but they're going to be held accountable in the coming years because they have amassed an amazing amount of data and influence and power. And I think now is that sort of time of reckoning. And you'll see that potentially having interesting downstream effects. I frankly can't even predict. I mean you saw what happened with Microsoft in the late 90s and the anti-trust. And I think that ended up giving birth to the companies like Google and Facebook. And I think you might see something similar happen, right? Because these big tech companies are now being reigned in. And there's a bunch of interesting trends that are going to take place that we're watching very closely. Again, we're very much first principles-driven unlike founders and the insight versus broader market. But it's an amazing time to be innovating and being in the tech ecosystem in the next few years.

[00:50:26] JM: Well, Gaurav, it's been a real pleasure. It's been a long time coming since we've met. We should've done a show earlier. It's been a real pleasure talking to you.

[00:50:32] GJ: Thank you so much for having me. This is a lot of fun.

[END]