

## Silicon Valley Tour Summary

### Building great teams and great culture to create high performance organizations:

- To focus on hiring the right person and not compromise. For instance, Facebook underhires to make sure they have the right people on board and they focus on the most important tasks. James Coulter of Texas Pacific Group (“TPG”) said that having nobody is better than the wrong person in a fast-growth business.
- To establish a culture of high performance. For instance, Google continuously raises the bar on the quality of new hires as well as expectations from current employees. A Google executive commented that the quality of new hires is better than his qualifications at the time of his hiring.
- Great CEOs set examples and legends of their corporate cultures. For instance, E-bay CEO talked about her personal mistakes, what these mistakes cost the company and what she is doing about them on a first presentation made to the team joining E-bay via an acquisition.
- Tapping employees potential. Chip Conley of Joie de Vivre (“JDV”) thinks that many business focus on optimizing their physical assets but do a poor job of optimizing their human resources assets. He noted that if employees are engaged in the decisions and directions of their companies, they feel ownership. He also noted that most employees join companies and leave managers.
- Trust. John Riccitiello of Electronic Arts (“EA”) put the pictures of 4 developers that he has entrusted hundreds of millions of dollars of EA budget because he believes and trusts them to accomplish their tasks. He noted that if you cannot trust your employees, you should not work with them.
- Focusing on the most important tasks. TPG said that managers should ask and focus on the question “What can *only I* do?”. Panelists also suggested that managers and employees review quarterly what they will no longer do to make space for what they will now do.

### The next topic was about crisis – opportunity:

- TPG recommended to look at history to try to make sense of the current situation. History does not repeat by it rhymes. He also said that while he is worried about the current portfolio, he is excited about the 50% cash he has to invest. In fact, some of TPG’s best investments were made in the crisis times. TPG rotates investment strategies and sectors in accordance with times. Now they will focus more on turnarounds and operational work-outs.
- Edgar Bronfman, Jr., of Warner Music Group, recommended entrepreneurs to believe in their vision, to think & learn from the market and customers and to act. For instance, he invested in the music business because he believes that distribution will become a commodity but content will be valuable. Endeavor entrepreneurs observed that businesses, whether million or billion dollars, face similar issues and problems.
- EA talked about the opportunities created by disruption. Video gaming was riding the disruptive advantage for a long time but now Electronic Arts is facing disruption by smaller gaming companies, open source models, pirating. EA is experimenting with new business models to tackle this disruption. For instance, in Korea, they are giving away games for free and are selling features of the game.
- JDV had invested in hotels across the bay area when his business faced 3 challenges back to back, 2001 dot.com bust, September 11 and then the online travel aggregators that provided significant business volume to his hotel but charged 20% commissions. Faced with this threat, they have built their own online reservation guide that not only provides what the online travel aggregators do at the same prices but also provides a quick personality test, upon which they match free volunteers with similar interests and personalities to give personalized recommendations. Now they have gained most of their online bookings back.
- It was also noted that crisis weed out the weak competition and make it possible to hire great people laid off by the competition.

**Importance of business models**

- TPG talked about the importance of the business model. He saw many brilliant business models success with average management but saw many poors business models fail with great managers.
- E-bay is another example of a great business model that serves as a network platform for millions of people to buy and sell goods and create businesses. Combined with a strong culture of performance, E-bay has had 43 consecutive quarters of increasing revenue, for instance.
- Even though the hotel industry has been going though a crisis in the U.S., JDV was able to grow through differentiation and tapping the potential of its employees. When JDV bought its first hotel in the then-ghetto district of Tenderloin in San Fransisco, they were not able to attract customers. JDV's initial charge-by-the-hour model brought in a questionable clientele. At this point, Chip and his team asked the question, who can we serve and attract that current hotels are not? They decided that hotels were not targeting the rock bands because they saw them as disruptive to their larger client base and JDV re-designed their first hotel for the rock bands and fans and became an immediate success.

**Client focus**

- EA suggested that business focus on giving consumers a great price / value equation. The video gaming industry has been great on this front. They charge \$59 for a game, which they measure to give consumers 50-100 hours of entertainment, about \$1 per hour. Compared to movies or a sports game, it is very competitive. To increase this ratio, they started giving free features online that comes included in the retail price such as downloadable maps.
- JDV described his employment of the Maslow Theory of the hierarchy of needs to differentiate his business:

Maslow	Chip's Interpretation for customers	Chip's Interpretation for employees
Self esteem	Unrecognized needs	Meaning / calling
Social / belonging	Desires	Toys & titles
Safety	Expectations	Just a job
Physiological		

- Chip suggested that business can be successful by fulfilling the middle segment and tranformative by fulfilling the top segment. For instance, many consumers did not know they wanted an Apple Ipod, explaining Apple's success in converting non-consumers to consumer by fulfilling their unrecognized need of a complete solution that makes music downloading easy and convenient.

**CEO suggestions**

- Krugle CEO Steve Larson said that it is important to create the culture and feel, believe and make believe that employees are lucky to work for the entrepreneur's company. He also mentioned that he frequently asks his board of directors if he is the right person to run business. He also said that when hiring, he looks for driven people ready to do anything to success. He said that he does not want to hear the words: "it is not my job" in his company.
- Homestead CEO Justin Kitsch suggested that activities and perks are more cost and tax effective ways of motivating employees. Homestead paid less than market rates for their employees but organized retreats for all employees to Hawai.

**Venture Capital ("VC") process**

- Extreme due diligence on team: All VCs call all the personel references, ask them for secondary references, organize a meeting with their contacts or consultants who are experts

- in that field, see how the entrepreneur team behaves among themselves and how they conduct themselves during negotiations. DFJ also sends the opportunity to the global network to see if there are other teams engaged in the same business and go talk to them as well.
- Term sheet: They use standard term sheets, avoiding many-multiple liquidation preferences because they want to be completely aligned with the manager.
  - How VCs add value: VCs help entrepreneurs to spend money on the right areas, help with their areas of expertise. Entrepreneurs are often buried very deep into their businesses and VCs look broadly and serve as a sounding board. They also help with contacts.
  - Entrepreneur to manager transition:

#### **Venture Capital investing internationally**

- For VCs to invest internationally, they look for a large domestic market and local ecosystem and exits. Right now, funds invest in Israel, India and China. To invest in a new country, at least one partner of a VC fund has to champion it, spend time to learn about the country, the opportunities, the risks. They would consider investing if a great opportunity comes referred by a trusted party in an area they know.

**Endeavor 2008 Silicon Valley Tour Agenda:**

- Speakers
  - Bill Draper, General Partner, Draper Richards
  - James Coulter, Founding Partner, TPG Capital, L.P.
  - Chip Conley, Founder & CEO, Joie de Vivre
  - Parker Harris, Co-Founder & Executive Vice President, Technology, Salesforce
  - John Riccitiello, CEO, Electronic Arts
  - Edgar Bronfman, Jr., Chairman & CEO, Warner Music Group
  - Matt Bannick, Managing Partner, The Omidyar Network
  - Chamath Palihapitiya, VP of Product Marketing, Facebook
  - Frank Quattrone, Qatalyst Partners
- Panel: Bay Area CEOs
  - Moderator: Jason Green, Founder & General Partner, Emergence Capital
  - Panelist: Jeffrey Jordan, CEO, Open Table
  - Panelist: Justin Kitsch, Founder & CEO, Homestead
  - Panelist: Tom Shields, CEO, Yieldex
  - Panelist: Steve Larson, Co-founder & CEO, Krugle
- Panel: M&A Lessons from Microsoft, Yahoo, Cisco, & Sun
  - Moderator: Scott Rylees, Vice Chairman, Cowen Group
  - Panelist: Dan'l Lewin, Corporate VP, Business Development, Microsoft
  - Panelist: Hilton Romanski, VP of Global Corporate Development, Cisco
  - Panelist: Gerry Hokan, SVP of Corporate Strategy, Yahoo
  - Panelist: Brian M. Moriarty, Vice President, Business Affairs, Sun Microsystems, Inc.
- Panel: VCs Who Invest Abroad
  - Moderator: Phil Whickam, President & CEO, Kauffman Fellows Program
  - Panelist: Sergio Monsalve, Principal, Norwest Venture Partners
  - Panelist: Sanjay Subhedar, General Partner, Storm Ventures
  - Panelist: John Kohler, Founding Partner, Redleaf Group
- Panel: Top Bay Area VCs
  - Moderator: Wences Casares, Founder & CEO, Patagon, Lemon Bank, and Bling Nation
  - Panelist: Tim Draper, Managing Director, Draper Fisher Jurvetson
  - Panelist: Joanna Rees, Founder & Managing Partner, VSP Capital
  - Panelist: Jeff Brody, Founding Partner, Redpoint Ventures
- Site Visits: Google, Facebook, Ebay & Paypal, Electronic Arts