





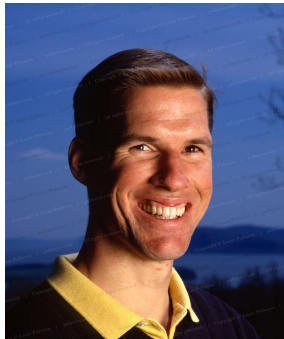
Overview: a candid inside account of one the greatest venture capital firms in the world: [Benchmark Capital](#). Founded in 1995 by four partners, Benchmark blazed a trail in early-stage investing via \$267M of invested capital which was worth over \$6 billion after the 1999 IPOs. Each GP had approximately \$350M of carried interest in the height of the late-1990s internet bubble. This is their story.

Table of Contents

1. The Right Answer	7. Privileged	13. Getting Out	19. "R" Toys Us?
2. Good People	8. Name Your Price	14. Techniqued	20. Crash
3. Go Big or Go Home	9. World Class	15. Go Fast or Go Home	21. Hoover Dam
4. Accidents Happen	10. All e-, All the Time	16. One Monkey Don't Make No Show	22. Built to Win
5. Don't Get Screwed	11. Buds	17. Off the Dole	
6. Room at the Top	12. The Art of the Deal	18. Communist Capitalism	

General Partners of Benchmark in this book:

 <p>Bruce Dunlevie</p>	<ul style="list-style-type: none"> • Background: former VC at Merrill Pickard. Recruited David Beirne to join Benchmark adding talent acquisition to their value prop. Knew Pierre Omidyar from Merrill Pickard's investment in Ink Development; voracious reader, logophile. • Notable investments: ToysRUs.com (while it lasted), ServiceSource, Catapulte, Jasper • Super power: deep, long-standing relationships; tremendous almost-paternal respect in the industry. One of the few GPs that John Doerr (Kleiner Perkins) actually liked.
 <p>Andy Rachleff</p>	<ul style="list-style-type: none"> • Background: founding partner; network equipment, telecom. Worked with Dunlevie at Merrill Pickard. Stanford GSB. • Notable investments: Juniper Networks, Equinix, Blue Coast • Super power: domain expertise, insightful questions, persistence
 <p>Bob Kagle</p>	<ul style="list-style-type: none"> • Background: earnest guy with midwest values comes to Silicon Valley; marketing expertise, former VC at TVI; built most of his network at Stanford GSB; took the lead with NVCA. Had all the partners read <i>Devil Take the Hindmost</i>, by Ed Chancellor • Notable investments: eBay, Art.com; he also brought in Starbucks but Benchmark declined! • Super power: empathy, connecting with people, consumer psychology
 <p>Kevin Harvey</p>	<ul style="list-style-type: none"> • Background: software entrepreneur (StyleWare, Approach) from Texas; database expertise; sold his first company at 23 year old and made \$3M • Notable investments: Red Hat, NewWatch.com (Ashford) • Super power: superb business judgement; highly intelligent: the GPs considered Kevin to be the sharpest tool in the shed; also recruited Bill Gurley to join as GP (and actually made him the offer over dinner with the other partners); the "Zen master of emotional detachment."



David Beirne

- Background: one of the first GPs that was *not* a founding partner; built a world-class recruiting firm from the ground up through hustle and grit.
- Notable investments: Webvan, TriStrata
- Super power: grit, force of personality, attracting talent, strategic team building, i.e. getting the right CEO for the job, etc.



Bill Gurley

- Background: Texan basketball player turned VC; University of Florida undergrad, MBA at University of Texas; worked at AMD, Compaq and also CS First Boston as a tech analyst; joined Benchmark from Hummer Winblad
- Notable investments: Nordstrom.com, Linden Lab, Opentable, Zillow
- Super power: “has a way of sizing things up that makes him both intriguing and highly quotable.” Consummate dealmaker.

Chapter 1. The Right Answer

Overview: We meet David Beirne who cut his teeth cold calling to earn recruiting placements. He went on to cofound Ramsey Beirne and grew it into an elite placement / headhunting firm. He was later asked to join Benchmark as one of the first non-founding partners. Fake it until you make it.



David Beirne

Notes

- As a point of reference, Kleiner Perkins set up shop on Sand Hill Road in 1972.
- In the spring of 1997 Bruce Dunlevie meets with Beirne and asks him to join Benchmark as partner.
- The key themes in this chapter are hustle, work ethic, the right dose of irreverence, and being brutally honest in business
 - Eg story of Beirne leaving a profanity-laced VM for CEO whose company was behind on payment.
- Ramsey Beirne differentiated itself from other search firms by **offering advice on business strategy** which was unique for executive recruiting firms.

2. Good People

Overview: we get to know Bob Kagle who contributed meaningfully to Benchmark's diverse set of backgrounds. Bob was a humble, empathetic guy from Flint, Michigan. One of my favorite stories in the whole book is highlighted below.



Bob Kagle

Quotes

- “Benchmarks formation a 1995 could be interpreted either as the creation of a new household in the natural life cycle of a family, or as political patricide.”
- “Anyone whom I don’t know who approaches me directly with a business plan shows me they have passed Entrepreneurship 101.”

Notes

- Benchmark was generous with how they portrayed their track record (borrowing from pre-Benchmark success)
- Bob Kagle was 39 at the time of Benchmark’s founding. His super power = empathy.
 - Kagle was already “extremely wealthy” at the time, but was determined to remain unchanged, as hungry to learn, to connect with you, as he’d ever been.
- **Amazing story of Kagle’s mom putting all his report cards in a shoebox and bringing them to the head of AC spark plug, the last division who could sponsor her son Bob for admission into General Motors Institute. It worked.**
- Kagle was accepted to Stanford for graduate study. He had a gold TransAm which he tried to sell. Apparently the students “were not interested in eagle-adorned muscle cars.”
- Stanford connections:
 - Kagle manufacturing course
 - Impressed a guy who would later invite him to join his VC firm (David Marquardt of TVI)
 - Kagle & Wozniak also befriended:
 - Steve Ballmer, future Microsoft president
 - Scott McNealy, cofounder and CEO of Sun Microsystems
- Joins BCG in 1980
- Joins TVI in 1983
 - Founder: Burt McMurtry
- **Marquardt was the sole VC permitted to invest in Microsoft!!**

- What Bob really liked was consumer psychology. He also explored beyond “tech deals” and Benchmark declined a deal with Starbucks which he had brought in!
- He also spearheaded an investment in Jamba Juice after seeing a long line for (formerly named) the Juice Shop in Town & Country shopping mall near Stanford.
 - In short, he trusted his observations and instincts and flew to San Luis Obispo to meet with the 27 year old owner.
- Then: eBay!!
- **Benchmark’s first fund had 13 limited partners, and \$15.8M invested across 9 companies.**
- eBay’s founder Pierre Omidyar knew Bruce Dunlevie from Merrill Pickard’s investment in Ink Development (pen computing software)



Bruce Dunlevie

- Dunlevie = grew up in Dallas, studied History at Cambridge.
 - “Intellectually peripatetic, he had hopped after graduation from computer programming to investment banking to managing a computer factory before becoming a venture capitalist.”
- The Benchmark pipeline: received 1500 proposals in their first 1-2 years. 500 were immediately dismissed as cold outreach.
 - 1,000 got attention (66%)
 - 500 got a meeting (50%)
 - 200 got second meeting (40%)
 - 100 went into final review (50%)
 - Resulting in 9 investments (9%)
 - One of which was Silicon Gaming, co-invested with KP, which made electronic slot machines
- eBay continued: Kagle and Dunlevie meet with Omidyar. Doesn’t go well. eBay servers down. But Kagle gets hooked looking for a personal hobby item: hand carved duck decoys. Found one from his hometown of Flint.
 - Kagle intrigued by eBay’s community and “the humanity” of the vision.
 - “This guy is good people.”

- eBay chose Benchmark over **Knight Ridder** not because of the money, but rather the contacts, counsel, and continued involvement in the deal

3. Go Big or Go Home

Overview: Louis Borders is introduced as an intelligent, secretive entrepreneur who has an idea to deliver groceries and fresh food to people's homes. This idea would later evolve into Webvan.

Quotes

- "Louis Borders was 49, not old enough to personally remember the halcyon days of home-delivery, but old enough to remember older people remembering them."

Notes

- Enter: Louis Borders, founder of Borders Books & Music (at only 23 years old w/ brother)
 - Studied mathematics.
 - Built AI software to manage inventory
 - Sold to Kmart in eve of IPO.
 - Later did Angel investing and played lots of basketball
 - Reads Nadine Gordimer
- Benchmark business plan: Oasis. Borders basically envisioned Amazon before Amazon existed. Wanted to start with 3M SKUs.
- Similar to Kleiner Perkins, Sequoia Capital was also founded in 1972 and partner Mike Moritz had backed Yahoo.
- Sequoia's prickly founder Don Valentine like what he saw and joined the Webvan round and board.
- We briefly meet Bruce Dunlevie in the conference room as "the hardware guy" and Andy Rachleff as the "network equipment and telecom guy" with his excel spreadsheet of todo lists, and also Kevin Harvey the minimalist software entrepreneur known for his "spareness": meanwhile Beirne annotated his calls to make list bound in an archaic leather journal.
- On webcam: "Nah, it's going to be ten billion [dollar company]. Or zero."
- Reference to Benchmark's "sin of ostentation"—humility and a low profile were key values.
- Harvey sold his first company when he was 23

4. Accidents Happen

Overview: we are introduced to Meg Whitman who Benchmark tries to recruit to join as eBay's CEO. What's most impressive is the lengths the Benchmark partners go to in order to make the deal attractive with the utmost level of service.

Quotes

- "Having long gross margins is like starting on the 50 yard line."

Notes

- Enter: Meg Whitman and the Benchmark full court press to convince her to join as eBay's CEO
 - Benchmark even went so far as to:
 - leave her kids care packages at their hotel with Stanford caps, and also
 - had a realtor show them the right type of places
 - Found out about an old \$400 expense tied up in a Nets Inc bankruptcy (Benchmark reimbursed her) - little touch
- For comparison, eBay offered Meg Whitman 6% equity. At the time they had about \$5M is GMV. This is slightly less than the 10% "standard" to recruit a seasoned CEO.
 - They estimated the eBay valuation at \$150M at the time (and Meg's equity to be worth \$9M)

5. Don't Get Screwed

Overview: This chapter profiles the rise of the "entrepreneur" in popular culture and the importance of access to capital; meanwhile, a cultural shift in the acceptance of risk by employees to join startup companies. Benchmark attracts Eric Greenberg as their first EIR.

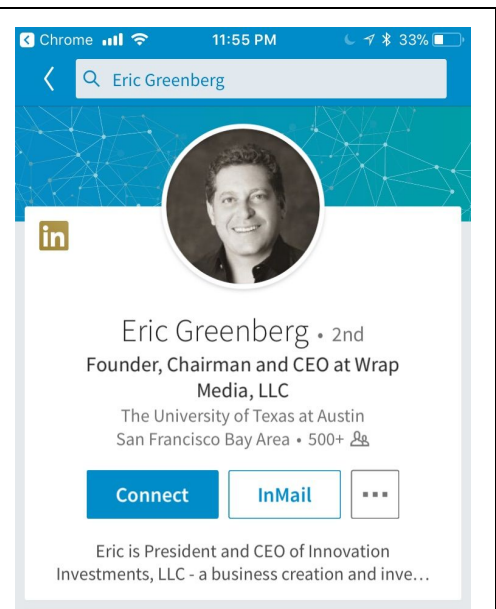
Quotes

- "It is the nature of romance to get far ahead of reality."

Notes

- Historical context: in 1989 Hummer Winblad was founded as a venture capital firm that would only invest in software.

- Story of Eric Greenberg who moved west and started Silicon Valley Internet Partners, raises \$4M with no contacts, and then the company goes public (as Viant) in 3 years with a \$500M market cap.
 - Eric however had been pushed out and became a very vocal opponent of the VC industry
 - He was motivated by a deep existential angst with a harbinger desire to be remembered after he passed on
 - Later becomes Benchmark's Entrepreneur in Residence (EIR) and started Scient.
 - David Beirnes goes maniacal and interviews each of their 30 employees.



- Through the author's first hand accounts, you really start to sense how **ruthlessly competitive these guys are**, talking about "ripping the competitors heads off and shitting down their necks."

6. Room at the Top

Overview: Recap of Benchmark's first fund along with their strategy to differentiate themselves vs. incumbent VCs, i.e. charging a 30% performance fee like the top shops, limited board seats to 8 per partner, and a focus on serving the entrepreneur.

Quotes

- "God is not on the side of the biggest arsenals, but on the side of those who shoot best."

Notes

- Of Benchmark's initial 10 investments:
 - Two 6x (Genesys and SVG)
 - Two do "moderately well"
 - Two go bankrupt / out
 - Two hemorrhage cash
 - One acquired out of obscurity
- The lopsided returns equates to 100% annually since inception.
- **Benchmark spun their small size into a virtue: less money equals higher scrutiny of ideas and more attention for portfolio companies.**

7. Privileged

Overview: in this chapter we cover venture lingo, compensation, and a fair bit of foreshadowing from industry leadership within the NVCA.

Quotes

- "The stock market in the 1990s has covered up our ineptitude. The venture-capital business itself was run by incompetence, with 20% of the partners doing 80% of the work. Valuations had lost all pretense of being based on anything real." - Don Valentine, Sequoia
- "It's hard to help entrepreneurs if you haven't had the 2 AM sweats, haven't made a payroll." - Dave Beirne

Notes

- Explored some internal lingo:
 - "A buck" = a million
 - "A nickel" = \$5m
 - VC was always "venture capitalists" or "venture guys" but never VCs
 - Never used "a mil"

- Carried interest was where the real money was made, typically 20% of the gains. Kleiner Perkins could charge 30%.
 - When Benchmark opened shop, they too charged 30% and the PR served them well.
- They had a 100% capital gain hurdle (original money repaid) before which the carry was 20%, then it went up to 30% carry.
- As a team they also put in their personal wealth to the tune of 3% of the total invested amount which was 3x the typical 1%. They ate their own cooking.
- Despite Stanford's pessimism, they raised \$85M in institutional capital.
- The venture industry lobbies for continued favorable tax treatment via the NVCA, the National Venture Capital Association.
- Most of the Benchmark guys were disinterested in politics, but Kagle joined the board of the NVCA and spoke highly of the continued privilege to serve entrepreneurs who "deserved the credit for wealth creation."
- Compensation: some senior General Partners took home 2/3rds of the funds total carry!
- When Tom Perkins and Gene Kleiner opened shop in 1972 the phone never rang. They both made outbound calls.
 - Peter Crisp of **Venrock Capital**, perhaps the oldest venture guy in the room - decades older than KP.
- In this chapter we also learn about benchmarks strategy to intentionally keep a low profile. At the industry event, they intentionally keep their profile low in self promotion to an absolute minimum allowing only two partners to be involved.

8. Name Your Price

Overview: Benchmark seeks a relationship with Priceline.

Quotes

- "You don't know me, but we're going to be friends." - Beirne's voicemail to Priceline founder
- "No company looks better than the one that professes it does not need your money."
- "We all have our blind spots, right? Our greatest strength is our greatest weakness."

Notes

- Beirne falls in love with Priceline - which would later become one of the largest tech companies in history.
 - Beirne left a voicemail for Jay Walker, the founder of Priceline in May 1998: "You don't know me, but we're going to be friends."
- Walker's background:
 - 42 years old
 - Marketing entrepreneur
 - Inserts ads in envelopes with billing statements
 - **NewSub Services which was doing \$250M in revenue per year** which he politely deprecates as "all that garbage in your credit card statement that irritates you."

- Had a net worth of \$100M
- Started Walker Digital, a private research outfit of Ph.D.s looking for patentable marketing ideas
- Beirne was impressed with Jay Walker's early backers:
 - Rick Braddock, former head of Citicorp
 - Nick Nicholas, co-head of Time Warner
- Priceline: "what Amazon was to books"
- The deal: Benchmark invests \$7.5m for a 10% stake!
- The crowded round (\$25M led by General Atlantic) and lack of revenue was met with partner scrutiny
- Jay Walker's pitch lasted 3 hours - a record - and focused primarily on applied marketing theory
 - Demand collection systems
 - Conditions purchase offers
 - Primary/secondary demand fill
 - Plug-in demand
 - Bounce-off demand
- "Deeply embedded uncertainty"
- **Problem Priceline solved for airlines: \$38 billion per year in empty seats.**
- Benchmark really liked that Walker had invested \$20m of his personal fortune into Priceline.
- The value add of Benchmark was really to recruit, attract and install a top tier management team.
- In this chapter we also explore Beirne's TriStrata deal which made encryption software.
- TriStrata's board was already packed with talent but they needed Benchmark for sales, marketing - operational expertise.
 - John Young, former HP CEO
 - [Bill Zuendt](#), former COO of Wells Fargo
 - Known for launching 24-hour support, online transactions, closing branches in favor of smaller grocery store outposts, and failing to integrate an acquisition (First Interstate)
 - Referred to as "August company" meaning respected and dignified people are involved
- Back to Priceline deal
 - Proposal to offer \$7.5m at \$60m pre-money with warrants for another \$7.5m if exercised, which would **give Benchmark a 15% stake, the minimum acceptable to the partners.**
- How Benchmark rated deal decision:
 - 1-4: not in favor
 - 6-10: in favor
 - 5 not allowed
 - Majority: 3 out of 5 votes in favor to proceed as an input for the advocate to digest (who ultimately makes the decision)
- Harvey is referred to as the Zen master of emotional detachment



Kevin Harvey

- Priceline continued: it takes off. IPO in March of 1999. Shares jump from \$16 to \$69 - market cap at \$9.8 billion. Stock continues up to \$120 - market cap now at \$17 billion.
 - Jay Walker net worth = \$7.5 billion (implying 44% ownership)
- The late stage bubble mentality sets in and the potential upside was thought to render risks irrelevant and ushered in a new category: “we’ve-got-to-do-it-deal”
 - Example: Handspring, a company with plans to build a new handheld computer for mass market, 2 employees: \$60M post money?!
- Even though Benchmark got into Priceline, they waited too long and this continued to frustrate Beirne.

9. World Class

Overview: Benchmark rolls with the punches as the TriStrata deal comes together with considerable volatility.

Notes

- Late stage bull market bubble continued: Benchmark invests \$6.5m in TriStrata whose valuation was pegged at \$97.4m.
 - This marked a milestone: \$100m price for a company that had yet to collect a penny of revenue
- Story of enticing Paul Wahl (the CEO of SAP) to become the CEO of TriStrata
 - Got denied 2-3 times before uncovering a deeper objection: a tax issue
 - Result: they increased their offer from 7% equity to 10% equity, \$300k in cash compensation (50% of which is bonus), and a \$1m loan to pay his taxes on a 5 year term secured by TriStrata stock
 - Loan was to be repaid upon IPO, and forgiven if otherwise. Essentially it was a \$1M sign-on bonus.
 - Wahl agreed and resigns from SAP

- Aside: Perkins is floating in a yacht on the Mediterranean, a frequent retirement activity. He is married to Danielle Steel.
- Originally Benchmark told it's LPs that they intended to invest in early-stage companies with high risk / high return and avoid "feeding the trough" a reference to the intermediate phase where there is higher risk but lower reward.
 - TriStrata was unequivocally at the bottom of the trough
- TriStrata continued: CTO resigns 7 weeks after new CEO announcement. "Working for Dr. A has been a bitch."
 - Turns out the culture of TriStrata was subpar, employees were frustrating, the Founder's son Bill Attala was a prick accused of sexual harassment, and the technology wasn't truly one-time pad implementation

10. All e-, all the time.

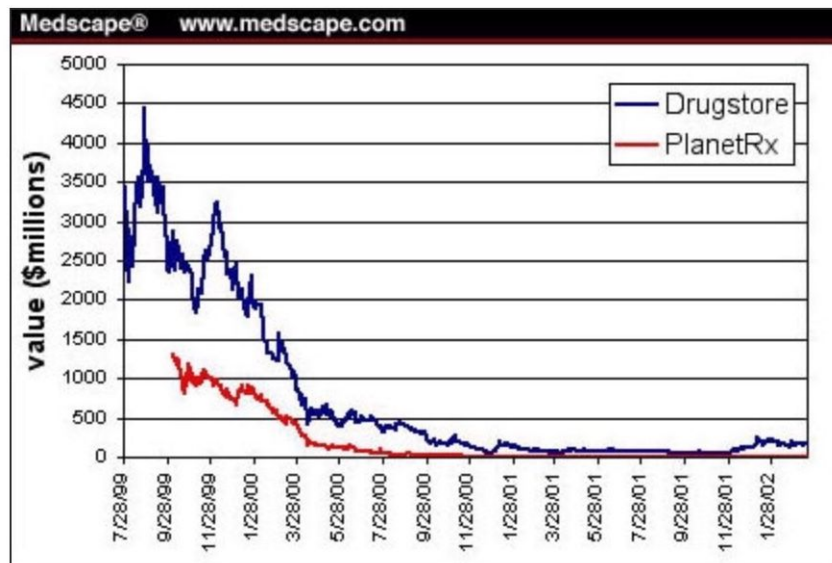
Overview: Recap of other e-commerce focused deals including pharmaceuticals.

Quotes

- "What scares me about this market is when you don't have a major distributor, you don't have a major player, you have this real big fragmented industry. But then there's a bunch of quirks around traditional, small little niche businesses like this. They operate that way for a reason." So maybe what seemed to be a large opportunity was illusory.

Notes

- In 1998 Benchmark backed PlanetRx an online pharmacy that would compete head to head with Kleiner Perkins-backed Drugstore.com.
 - PlanetRx went out of business in 2001 after being valued at \$1.3b at IPO in Oct 1999
 - Drugstore.com plotted along and grew revenue to \$450m and was then Acquired by Walgreens in 2010 for \$409m.
- Aside: Good article: https://www.medscape.com/viewarticle/431144_6



- They also fund Sparks with \$2.3m at a \$6.2m pre. This was an online greeting card company without an operating website. The bubble theme continues...
- They also funded artuframe.com, and Chicago-based store + website that sold art online. CEO was Bill Lederer, a 37 year old.
- Reviews the deal ePhysician, a PalmPilot based e-prescribing solution conceptualized by Dr Stu Weisman which resulted in a \$2M offer for 40% stake
- **Benchmark (in 1998) considered 8 directorships to be the maximum that a partner could hold without diluting the quality of the service to the entrepreneurs.**
 - Other shops did 12-14 directorships per partner

11. Buds

Overview: Kevin Harvey takes center stage.

Notes

- We get to know Kevin Harvey a bit more



- Worked at a grocery store growing up with Rob Shaw in Houston where they bought an Opal car for \$1350 when they were 15. It blew up 6 weeks after.
- Went to Rice, math whiz, got a job programming for school district, founded a company called Styleware which produced word processing software for the Apple II.
 - \$1m in year 1
 - \$3m in year 2
 - Apple's subsidiary Claris acquired Styleware for \$5M. At the age of 23 Kevin Harvey had \$3m in his pocket one year after graduating.
- After getting screwed by Hummer Winblad and Sequoia I'm raising for Approach, he met Bruce Dunlevie at Merrill Pickard.
 - Dunlevie liked Harvey's "we're going to out-execute everybody" bravura
- Approach starts well: \$5m in revenue in 1992. Microsoft ships Access at low ball pricing. They sell to Lotus for \$23m.
- We learn about Harvey's friend who started Newwatch.com which they ended up funding after much discourse due to the personal friendship involved.

12. The Art of the Deal

Overview: the trials and tribulations of Kagle's Art.com investment.

Quotes

- "I'm a capitalist in a sea of communists." - ironic quote from Bill Lederer, CEO of Art.com given Benchmark's non-capitalistic continued support after a \$1.9M miss in revenue

Notes

- The Chicago-based ArtuFrame investment goes south: revenue comes up short at \$150k vs the projected \$2.2m on lower conversion rate and tricky site UX
- Really cool play-by-play if the partners giving Kagle advice on what to do: cut bait, raise more capital, or move business to Bay Area and find a new CEO
- What actually happened: Kagle works a miracle and takes Dunlevie's advice to round up other investors: SoftBank and Sandler Capital.
- **Outcome: 6 months after the hardship, Getty Images purchases Art.com (as it had been rebranded) and the investment yields 5x for Benchmark.**

13. Getting Out

Overview: the story of Meg Whitman managing eBay and deciding to take eBay public in 1998. At the time it was growing 30% per month.

Quotes

- "We need to break the rules on this, guys" - Kagle trying to persuade benchmark to cut out the investment bankers for the IPO and go directly to the community with Omidyar's backing.

Notes

- After a 7 hour service disruption, Meg declared uptime priority #1 and the engineering headcount was grown from 9 to 33.
- She tried to change the name (Cairo?) unsuccessfully
- We get an inside glimpse of the ebay roadshow some of which happened while the Dow was plunging
- EBay had 88% gross margins
- Omidyar demanded Goldman pick up the travel expenses for the road show and got it.
- Pierre also sent daily dispatches from the roadshow to his peers; they even played a game about injection facts like "since 80% of eBay's active users are repeat users"
- IPO institutional demand was weak. Whitman meets with Lawton Fitt, Head of Capital Markets for Goldman. She reassured them. Markets rebound, IPO is now oversubscribed 20x. Priced at \$18.
- **IPO goes very well. They sell 3.5M shares no problem. Valuation = \$700M. No sellers. Then, a seller at \$54. At that price, Whitman estimated that half the people in the company were paper millionaires. Closed at \$47.**

- Meg Whitman: \$150m (not bad for 9 months into the job)
- Pierre Omidyar: \$750m
- Valuation increased to \$1.8B
- **Benchmark's original \$6.7M is worth \$416m. 70x baby.**
 - Kagle had cancelled his trip to NYC due to concern his other CEO clients would think he had gone too far in giving eBay his attention.

14. Techniqued

Overview: after 3 years, Benchmark's investments totaled \$150M, and the value of those investments, conservatively, was \$1.6B. But how to handle the "wayward child" of TriStrata?

Quotes

- "You know that emotion is exactly the emotion you feel when it's time to shut it down." Andy Rachleff, responding to Beirne regarding TriStrata:
- "I'd love to kill it and I'd hate to kill it." - referring to TriStrata
- "The amazing thing is it hurts more on the downside than the good feelings on the upside." - Rachleff
 - "That's my experience - three orders of magnitude." - Dunlevie

Notes

- Notable investments, values as of late 1998
 - Scient: \$3m >> \$32m
 - Impresse: \$3.8m >> \$12.6m
 - Ariba: \$3.9M >> \$18.2m
- Partnership gains at this point = \$250M not including eBay
- But TriStrata is rife with damaging issues
 - The cryptography technology is only marginally better than DES and has not been subjected to public review
 - PAUL Wahl CEO and founder John Atalla are hurting heads
 - Atalla Junior is a douchebag
 - Delayed product launch
- In retrospect, Kevin Harvey and the Benchmark team learned they got **techniqued**:
 - TriStrata claimed an outrageously high valuation (\$100m) AND had played hard to get.
 - "This is the company that should've been funded at five."
- Dunlevie on his Opus T-shirt which he wears when anything good happens to him.
 - Why? He and Rachleff had backed Opus at Merrill Pickard and it was approaching IPO and doing well. Then, Sun Microsystems curtailed its licensing program and kill Sparc clones. **It marked the end for Opus, but they kept at it for 2 years of pain before it died.**
 - They should have killed Opus sooner but kept hanging on
- Ultimate decision on TriStrata: the investment remained in place, but the board resigned en masse.

15. Go Fast or Go Home

Overview: Louis Borders advocates for a Webvan expansion plan beyond the initial scope: General merchandise and go after Amazon (then valued at \$30B).

Quotes

- “No ones ever built a \$10B company in 5 years.” - Louis Borders

Notes

- Dunlevie was a voracious reader and logophile, a lover of words

16. One Monkey Don't Make No Show

Overview: we learn more about eBay which has now become Benchmark's best investment ever.

Quotes:

- “Cause its always that first million that matters. The first million is always the biggest million you ever make.”

Notes

- eBay stands for Electronics Bay (officially) but Pierre actually named it Echo Bay (“cause it sounded cool”) but the domain was taken so he shortened it to eBay.
- Benchmark owned 20% of eBay
- Volatility of the stock was through the roof, eg up 50% in a day to \$73 after DLJ forecasted a price target of \$100
- Pierre becomes a billionaire when it hit \$82.50 but he urges employees the stay focused and to not go buy Ferrari's
- **What's insane is the valuation was \$3.2B on \$12.9M in quarterly revenue. We're talking tip of the bull market vol here. Similarly valued companies had \$700-800M in quarterly revenue.**
- Price/sales hits 500
- At this point eBay might be considered on of the best venture home runs of all time compared to:
 - Kleiner: @Home
 - Sequoia: Yahoo
 - Anecdotally, the biggest gain by a partnership was said to be \$600-700M at the time of this book's writing (2000)
 - At \$111, it would represent a \$1B gain for Benchmark
- eBay now at \$150
 - On a gain of 1 1/2 billion, 105 billion of stock could be distributed to the limited partners to buy or sell as they wished and 450 million would be retained by benchmark itself. Each partner steak was about 18.5% or more than 85 million each for this single investment. All of the partners with split the gain equally
- eBay now at \$300
 - It gained 1,304% in 3 months. Mania.
 - Revenue now at \$34M for the quarter, or \$138M run rate

- Whitman now worth \$1.4B on paper
- Benchmark share is now worth \$5.1B which would put \$1.5B in the hands of 5 general partner
- eBay Foundation, funded with 321k shares jumped from \$1.8M at IPO to \$56M
 - Hats off to Pierre for potentially starting this trend (it was not Benioff for the record)

17. Off the Dole

Overview: eBay scrambles to navigate the market against their biggest competitive threat: Yahoo.

Quotes

- “As Don Valentine would say right now, ‘What the fuck should I give you any money?’” - David Beirne to Danny Shader

Notes

- The completion rate of an eBay auction was 70%. yahoo’s was 18%.
- eBay only had 2m registered users vs AOLs 16m. eBay agreed to pay \$75M over 4 years in a traffic deal AND to not compete. This was a fantastic deal for eBay.
- Enter: **Danny Shader**, 37 and recently left Netscape. He becomes the entrepreneur in residence at Kleiner and Benchmark at the same time. Smart, friendly BD guy who can get people to open up.
 - <https://www.linkedin.com/in/dannyshader>
 - After 12 business ideas and no development, Danny asks to not receive his \$10k/mo allowance.
- Danny’s idea: create an escrow service so eBay customers can sell more valuable items. This idea became Accept.com
 - Benchmark invests 52 million at 5.1 million pre-money valuation. Kleiner comes in for 20% as well.
- eBay and Accept try to strike a deal or acquisition. Talks stall. eBay decides to do a deal with I-escrow. Accept is back to square one
- How does this end? Amazon launches its own auction services. Amazon purchases Accept.
 - For Benchmark, this made a bad situation worse.

18. Communist Capitalism

Overview: Benchmark recruits a new general partner, Bill Gurley. We get to know the partners a bit outside of work, e.g. Dunlevie and Harvey own a 13,000-acre cattle ranch. The firm reflects on its own flat, equal structure and considers adding associates.

Quotes

- “This is more a balls than brains business business, as we’ve said many times. I think having too many brains can hurt you at some point.” - Dunlevie
- “If an associate finds one good deal a year, that’s awesome leverage, unbelievable. Twenty million dollar gain for a \$150k salary.” - Kagle

- “Okay, make him the offer.” - Kagle to Harvey

Notes

- Kevin Harvey’s business judgement was regarded by his colleagues as the best in the group.
- There’s talk of adding a sixth partner.
 - Bill Gurley’s name came up in Feb 1998 when he was at Hummer Winblad. He is 31.
- Where Benchmark partners did offsites:
 - Small ranch near the sea
 - 13,000 cattle ranch that was owned by Dunlevie, Harvey and an entrepreneur
- Partners debate creating an associate role to handle due diligence and task management
 - “If an associate finds one good deal a year, that’s awesome leverage, unbelievable. Twenty million dollar gain for a \$150k salary.”
- Harvey takes Gurley on a 2-day hunting trip. Gets to know him. Returns and says he thinks Gurley is analytical and would add that dimension to the partnership.
- They schedule a dinner with Gurley saying it’d be with 2 partners and all 5 show. They make him an offer, but first ask if he’ll accept it. He does. Benchmark now has 6 partners.
- On Benchmark’s structure: “it’s like a communist capitalist system.””

19. “R” Toys Us?

Overview: the trials and tribulations of working with established brick & mortar retailers to transition the to ecommerce. Also, Bill Gurley’s first deal: NordstromShoes.com

Quotes

- “Bob, this deal gets worse the closer I get to it. None of what you represented is true. The organizational dispreference for trying to accomplish this is obvious to me.” - Dunlevie
- “Look, the goal of the dot.com businesses is to cannibalize the stores.” - Dunlevie
- “I think having something no one else has is the best customer acquisition tool in the world, right?”
- “Still, the inertial drag in a big company was the most powerful factor in the equation” - Dunlevie referring to Toys R Us trying to take the ecommerce leap
- “The [Nordstrom] family owned 35% of the company, wielding power that could obliterate organizational inertia.” [referring to why Nordstrom was able to more quickly adapt to ecommerce than Toys R Us]

Notes

- Goldman Sachs old world vs new world deal falls through. They negotiated with Henry Paulson, then CEO!
- Toys R Us has 800 stores and a garbage website. Meanwhile, a competitor is lurking: eToys, during the Spring of 1999
- Benchmark’s amazing network is evident here: Dunlevie new Bob Moog (who ran University Games) from Stanford business school and Dunlevie was a director for 7 years.
- The Toys R Us guys fly to Benchmark to discuss a possible .com joint venture. They strike a verbal deal, but the term sheet is hairy given accounting’s desire to leverage the JV for tax purpose.

- Moog becomes CEO of toysrus.com, Dunlevie joins the board
- Why is Benchmark helping Fortune 500 companies transition to ecommerce?
 - **They key Benchmark strengths apply:**
 - Recruit the team
 - Craft a strategy that makes sense
 - Execute it
- Toys R Us was valued at \$11B at the time with a \$150M marketing budget
- During this time, the book *The Innovator's Dilemma* was making the rounds and creating some fear in big companies that would risk certain failure if they didn't adapt to disruptive change
- The dot.com entity was super independent and had full access to parent assets along with the right to IPO without parent consent.
- Moog and Nakasone have a falling out. Nakasone wants to fire Moog. He does so without consideration of Benchmark's close relationship with Moog.
- Meanwhile, toysrus.com leadership reduces the equity pool from 20% to 10.5% based on Salomon Brothers report that it was enough to attract 300 people. This is a big deal, considering a typical CEO would command 10% alone.
- The revenue plan shows \$25M in year one, much lower than the \$100M Dunlevie expected. This is due to the .com being "second in line" behind the parent company to procuring hot toys.
- Benchmark owns 12.5% of toysrus.com for reference
- Deal collapses. CEO Bob Nakasone is forced out.
- Meanwhile, a Nordstromshoes.com investment is made - one of Gurley's first deals. Benchmark invests \$15M - one of its largest investments ever.
 - The pitch: inventory. Site will offer 20 million pairs of shoes vs the existing site's 200,000.

20. Crash

Overview: competitors come for eBay. Yahoo and Amazon.

Quotes

- "There's always a group that likes RC Cola because it's cheaper." - Westly responding to Whitman's inquiry on why Yahoo recently surpassed 200k listings?

Notes

- Amazon had acquired Accept for \$175M in Amazon stock (nice work Danny Shader)
- Benchmark and KP were competitors, but also coinvestors on:
 - Silicon Gaming, Impresse, Juniper Networks, Handspring, and Accept
- John Doerr of KP seems to dislike David Beirne and Bob Kagle



John Doerr

- But Doerr likes Dunlevie
- Amazon was part of Kleiner's portfolio so it was war
- eBay set up a war room where they met 3x per week to strategize against Amazon
- eBay at this point had 2.3M listings compared to Amazon's 55k
- eBay's customer service isn't scaling: Meg Whitman takes a call from irate customer. Shares story with Benchmark. Change happens.
- Sotheby's starts courting eBay and Amazon for a partnership. Benchmark deems Sotheby's as NOT a must-have.
 - Amazon does the deal
 - Meanwhile eBay buys a mid-market art auction house, Butterfield & Butterfield
- eBay analyzing Amazon's cost structure: "they have 100 people in auctions. That's \$1m a month in headcount costs."
- HUGE 2-day outage at eBay. Costs them \$3-5M in earnings and stock tanks by 25%. Yahoo benefits.
 - Learning: build a hot backup redundant system



Meg Whitman

- eBay recovers in a week. Listings then increase 2.1M to 4.1M over the next 3 months

21. Hoover Dam

Overview: we revisit how Webvan is doing ahead of its launch in June 1999. So far they've spent \$50M to get the facilities operational. Benchmark came in early with only \$3M. Meanwhile, bearish undertones enter the partnership. They start to see the market trend in *acquisitions via inflated stock*.

Quotes

- "All businesses must earn profit in order to be viable. Kagle refuses to relinquish this simple truth."
- "Companies are paying companies with confederate money." - Kevin Harvey
- "It's like the 1840s railroads. What I'm seeing right now is an environment where every company you fund will have a dozen well-capitalized competitors." - Kagle

Notes

- Webvan getting ready to launch. Ribbon cutting speech at its Oakland hub. Louis Borders speaks. Then, Oakland Mayor Jerry Brown.
- System was designed to handle 8,000 orders per day. Slow start: 125.
- eBay continues to be plagued with outages of 4-9 hours each month.
- Meanwhile, the DJ Internet average is down 44%
- Book Kagle have all the partners: Devil Take the Hindmost, by Ed Chancellor
- Beirne courts Bechtel to potentially be a construction partner for national expansion (500 distribution centers) and claims this opportunity is as important as Hoover Dam, Bechtel's first project.
 - Beirne used to takeaway tactic to get the deal done: Webvan places an order for \$1B in distribution centers across 26 cities.
- Webvan raises another \$275m at a \$4B valuation
 - Meanwhile volume is still low: 382 orders a day.
 - Six months of sales in 1999 total \$395k in revenue. COGS at \$419k. Posted a loss of \$35m
- They recruit George Shaheen to be CEO before IPO - he used to run Andersen Consulting, a \$9B company.
- Roadshow begins with Goldman as lead underwriter. Logic draws heavily on the TAM of \$650B in groceries, drugstores, and home meals.
- After an initial SEC delay, Webvan goes public at \$15/share and closes on the first day of trading at \$25 with a valuation of \$8B.

22. Built to Win

Overview: we get a fly-by if the Red Hat deal, among other massive IPO successes. All in, Benchmarks \$267M of invested capital was worth \$6 billion after the 1999 IPOs. The GP cut delivered \$350M to each partner. Not bad for a firm started in 1995. The benchmark: 92X

Quotes

- “The way you differentiate is doing the best deals.” - Harvey
- “Has everyone forgotten, we’re in they totally hysterical market? Our companies our money losers valued at billions of dollars!”
- “If the individual entrepreneur won, its confirmation that one person with courage can make a difference.”

Notes

- Benchmark had invested in Red Hat with \$2M at \$20m pre, or 9% ownership.
- One year later it goes public at \$14/share at a valuation of \$935M
- Harvey tried to persuade red hats investment bankers to tell institutional / private client buyers that Red Hat offered it convenient hedge, and that they should purchase shares equivalent to 1%.
- On the first day of trading Red Hat jumped from \$14-\$54 a share with the market cap of three.6 billion. A month later it past 119 per share, with the valuation of 8 billion.
- Benchmarks \$2 million investment was not worth on paper almost \$700m
- Another investment: Ashford.com (formerly Newwatch) goes public in Sept 1999 with a valuation of \$600M
- Ariba goes public: Benchmarks 14% stake now worth \$1.1 billion at its \$8B valuation.
- Juniper goes public: Benchmark’s 2.3% stake is worth \$230M
- Scient: \$3M investment now worth \$400m
- Benchmark’s returns beat Kleiner Perkins after only 5 years.
- The partners start to worry about their massive wealth effect on their 14 children.
- Only 3 of Benchmarks 73 investments had gone out of business by July 1999 (not the most telling stat)
- Failed mezz deal: \$19M in 1-800-FLOWERS performs poorly at IPO down 13%
- Benchmark’s 3rd fund of \$175M was fully committed in 9 months. Speed of capital here is astounding.
- Kagle speaks of the *Coming Environment* to impart skepticism about future assumptions based on today’s reality.
 - On paper wealth is not equal to cash wealth.

The End

Flash forward: Today the partnership still has five partners with Bill Gurley being the longest serving partner:



*Left to right: Bill Gurley, Mitch Lasky, Eric Vishnia, Matt Cohler and Peter Fenton outside their SF office.
Photo credit: Forbes*

They've also added their first female partner, Sarah Tavel.

