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## Andreessen Horowitz

In December 2013, Marc Andreessen and Ben Horowitz, co-founders and general partners (GPs) of the Menlo Park, California-based venture capital (VC) firm, Andreessen Horowitz (a16z), were excited about their firm's latest market development conference. The event would connect a dozen Fortune 500 chief marketing officers with a similar number of startup teams working at the leading edge of "big data." Conference attendees crowded a16z's lobby. While most other venture capital firms had quiet offices, Horowitz and Andreessen enjoyed the constant bustle at theirs: a16z hosted events like this several times a week.

Long-time business associates Andreessen and Horowitz had founded a16z in 2009, raising \$300 million to make stage-agnostic investments in Silicon Valley-based information technology (IT) startups. Aiming to disrupt the traditional venture capital model, they had designed a novel organization and governance structure for a16z. The co-founders had embraced a network model long used by leading investment banks, talent agencies, and consulting firms, but largely ignored by venture capitalists. This network model replaced the traditional VC "artisan" partner, who mostly worked alone, with a team of investment professionals and operating professionals – the latter group comprised of specialists in marketing, recruiting, and business development. a16z rapidly gained a strong reputation for providing advice and contacts valued by entrepreneurs. Just 16 months after a16z's founding, *The New York Times* described the firm as "a new breed of venture capitalist that is... shaking up an industry in need of change."<sup>1</sup> A series of successful investments had helped a16z raise an additional \$2.35 billion by early 2012.

After the market development conference, Horowitz and Andreessen would meet with the firm's six other general partners to assess growth options. To frame the discussion, the co-founders had asked whether a16z should double its assets under management over the next few years. Would this require also doubling the number of GPs and the size of a16z's operating team? In a bigger firm, would it be possible to sustain high quality communications between team members, which were crucial to the network model's success? Finally, if a16z doubled its assets under management, could it continue to invest solely in Silicon Valley-based information technology startups? Could the firm preserve its edge if it diversified into other geographies (e.g., New York, China) or sectors (e.g., clean tech, biotech)?

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Professor Thomas Eisenmann and Senior Researcher Liz Kind prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School, and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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## The Decision to Start a16z

As an undergraduate at the University of Illinois at Urbana-Champaign, Marc Andreessen led the National Center for Supercomputing Applications team that created Mosaic, the first easy-to-use Web browser. After Andreessen graduated in 1993, he moved to Silicon Valley to create a browser that would outperform Mosaic, co-founding Netscape Communications Corp. Netscape Navigator was released in December 1994 and within a year had an 80% market share.<sup>2</sup> Netscape's IPO in August 1995 launched the dot-com boom and put Andreessen on the cover of *Time* magazine as one of Silicon Valley's "golden geeks."

In 1996, Microsoft launched Internet Explorer, a free browser that was bundled with every new Windows PC. Antitrust challenges to Microsoft's use of its Windows monopoly to benefit Explorer came too late to prevent dramatic share erosion for Navigator. In 1999, AOL purchased Netscape for \$4.2 billion.

Later that year, Andreessen, Ben Horowitz and two other Netscape colleagues co-founded Loudcloud, Inc., which offered Web-based application hosting services to corporations and Internet startups. Horowitz had joined Netscape in 1995 as one of its first product managers, and subsequently became general manager of its server and ecommerce units. (See **Exhibit 1** for biographies.) Andreessen served as Loudcloud's chairman; Horowitz was president and CEO. Loudcloud completed an IPO in 2001 in the midst of the dot-com crash. Horowitz scrambled to reposition the company as customers slashed spending on Web-based applications. In 2002, he sold Loudcloud's hosting business, changed its name to Opsware, and transformed Opsware into an enterprise software company. In 2007, Opsware was acquired by Hewlett-Packard for \$1.6 billion.

Between 2005 and 2009, Andreessen and Horowitz—individually and together—made angel investments totaling about \$4 million in 45 tech startups including Twitter, Digg, Jawbone, AppNexus, Asana, LinkedIn, and Facebook (whose board Andreessen joined in 2008). Andreessen reflected on the decision to launch a16z:

We'd been customers of venture capital for 15 years. Not just at Netscape and Loudcloud, but also indirectly as angel investors, board members, and startup advisors. We'd had terrific experiences with Kleiner Perkins' John Doerr at Netscape and Benchmark's Andy Rachleff at Loudcloud—they represented the very best of what venture capital has to offer. But we'd heard lots of other entrepreneurs tell horror stories about their VCs or ask, "Is that all there is?" There's plenty of dysfunction inside venture firms. [See **Exhibit 2** for a Horowitz blog post on VC flaws.] So, we set out to create a firm that we would have wanted to work with.

Horowitz and Andreessen would target technical founders who sought to remain in the CEO role. Horowitz reflected:

After raising our first round for Loudcloud, we met with the partners at a venture firm that had backed us. I was excited to explore ways we could work together. My excitement turned to dismay when one of the firm's top partners asked me, in front of my co-founders, "When are you going to get a real CEO?" That knocked the wind out of me. Why wouldn't an investor's default assumption be that we would continue to run the company that we'd created? This became our inspiration for Andreessen Horowitz.<sup>3</sup>

Vcs frequently removed technical founders from the CEO role because they felt that the founders did not understand sales, marketing, and organization building, and lacked a personal network to tackle such tasks. However, Andreessen and Horowitz reasoned that many successful technology

companies—including Amazon, Dell, Hewlett-Packard, Intel, Intuit, Microsoft, Motorola, and Oracle—had been run by their respective founders for many years. (See **Exhibit 3** for a more complete list.)

The co-founders resolved to build a team of functional specialists at a16z to support technical founders. Andreessen studied the history and evolution of professional service firms, including investment banks, consulting firms, ad agencies, law firms, private equity firms, and talent agencies. In all of these industries, professional service firms were initially organized as federations of generalist, “jack-of-all-trades” partners who mostly worked alone, each serving only their own clients. Over time, many firms added functional specialists who could expand the breadth of connections and the quality of advice that partners brought to their clients. This transformation was gradual in most industries, but occurred rapidly in the case of talent agencies, spurred by the 1975 launch of Creative Artists Agency (CAA).

Andreessen gained insights on the management of professional service firms from Michael Ovitz, one of CAA’s founding partners, who had served on Opsware’s board, and from John Donahoe, a senior partner of Bain & Company. Andreessen said, “Ovitz unspooled the CAA playbook: a comprehensive theory for disrupting a professional services industry based on a different way of organizing. He also pointed out the advantages of starting a firm from scratch. Cold starts have a lot going against them, but that’s the best way to implement a radically new operating model.” Horowitz added:

Ovitz told us, “A talent agency is essentially a network. In the past, an agency’s partners worked in silos, each with their own network. At CAA, we linked all of those individual networks together and then built an even bigger, stronger network by adding specialist nodes. To fund the investment in specialists, our founding partners initially didn’t take any salary.” Ovitz hired specialists for publishing, international, music—everything. If you were a movie star, your CAA agent could get you a book deal, a lucrative Japanese TV commercial, a role in a Broadway production—you name it. At the time, no agent in the world had access to such breadth and depth of opportunity. Michael Ovitz became the Super Agent—the most powerful man in Hollywood—because he could orchestrate just about anything through CAA’s network.

We thought, whoa, that could work in technology! We decided to build a network around the trade press, big companies, and key talent pools, especially engineers and designers—connections that would be valuable to technical founder/CEOs.

Building an “operating team” of functional specialists would represent a significant organizational innovation in venture capital. Most VC firms were structured as inverted pyramids, with more senior than junior professionals. For example, a firm with eight general partners might employ six junior investment professionals—associates and principals who supported the GPs’ deal sourcing, diligence, and advisory work. Some VC firms also had a few functional specialists on staff, who assisted portfolio companies with marketing or recruiting. But no VC had ever assembled an operating team on the scale that Horowitz and Andreessen envisioned. By December 2013, a16z employed eight GPs; 14 supporting investment professionals; an operating team of 43 professionals (focused on business and corporate development; technical and executive recruiting; and marketing); three special advisors; six board partners; and 22 staff members in administrative roles.

## Venture Capital Industry Overview

Andreessen and Horowitz also sought advice from venture capitalists and studied the industry. They learned two key things. First, historically, only the top VC firms generated consistently high returns. Benchmark's Andy Rachleff noted, "Three percent of VC firms generate 95% of the industry's returns. And the people in that three percent don't change."<sup>4</sup> Second, the business was hit driven. Horowitz said, "We heard from Andy that participation in the right 15 investments generated well over 90% of venture capital industry capital gains annually." The National Venture Capital Association (NVCA) noted that an estimated "40% of venture-backed companies fail; 40% return moderate amounts of capital; and only 20% or less produce high returns."<sup>5</sup>

Andreessen said, "The implications were clear. To succeed in venture capital you must be one of the top five firms. And to get there, you must have amazing deal flow." However, over the past 30 years, very few new firms founded by individuals who had not previously been VC partners elsewhere had reached the industry's top tier. According to Andreessen, even the exceptions—Seven Rosen and Hummer Winblad—had subsequently slipped from the top ranks due to partner succession problems and investment focus issues, respectively. Consequently, a16z would need a differentiated model.

Crafting a winning model would be challenging, given industry trends. In 2012, U.S. venture capital investments returned an average of 8.9%, relative to S&P 500 Index returns of 20.6%.<sup>6</sup> (See **Exhibit 4** for additional historical data.) A 2012 Kauffman Foundation report noted, "Venture capital has delivered poor returns for more than a decade."<sup>7</sup> Legendary VC Bill Draper said, "The growing consensus about venture capital in Silicon Valley is that too many funds are chasing too few truly great companies."<sup>8</sup>

There were signs of industry contraction. According to the NVCA, "The activity level of the U.S. venture capital industry is roughly half of what it was at the 2000-era peak."<sup>9</sup> (See **Exhibit 5** for VC summary statistics.) A 2013 Ernst & Young report expected the trend to persist, adding, "LP [limited partner] investors are showing a preference for the most successful brand names funds, which suggests consolidation will continue."<sup>10</sup>

Several developments were disrupting the VC industry. The cost of launching an Internet business had dropped dramatically due largely to open-source software, "cloud" infrastructure, and Internet distribution. As a result, entrepreneurs were able to postpone seeking Series A investments. Competing sources of seed and early-stage funding—including angel groups, incubators, and crowd funding—were becoming increasingly popular. Individual angels were forming groups to invest jointly, and "super angels" were investing institutional capital alongside their own money. Many incubators had been launched to provide intensive coaching and networking assistance to select startups. For example, Y Combinator and TechStars offered three-month "class" sessions, culminating in pitch days attended by prominent angel and VC investors, designed to help founders secure funding. AngelList, an online platform for connecting founders with accredited angel and VC investors, was democratizing the fundraising process. One of the site's founders had commented, "There's no such thing as proprietary deal flow anymore."<sup>11</sup>

Crowd funding, which allowed companies to raise capital from individual investors online, had been given a regulatory boost in the U.S. by passage of the 2012 Jumpstart Our Business Startups (JOBS) Act. Some VCs were skeptical of the phenomenon, with one noting, "I really don't think a bunch of individuals with little to no experience are suddenly going to 'beat the market' when compared to people who do this for a living fulltime."<sup>12</sup> Andreessen commented, "There's an evolutionary trend toward more transparency in private capital markets, and crowd funding seems

like a natural next step. Maybe a16z is the last and most evolved dinosaur, and crowd funding is the first bird.”

In response to these alternative funding sources, some VC firms had launched dedicated seed-stage funds, while others were co-investing with leading incubators. Industry dynamics had resulted in a more “founder-friendly” fundraising environment. However, many industry experts were concerned about unsustainably high valuations and the possibility of a “Series A crunch,” where large numbers of seed-stage startups would not be able to raise a Series A round.

At the other end of the investing spectrum, the IPO markets for VC backed companies had been difficult to access for some time. In 2012, there were 49 venture-backed IPOs, compared with a peak of 280 IPOs in 1999.<sup>13</sup> In addition, the median time it took a company to go from founding to IPO was at an all-time high of seven years.<sup>14</sup> Andreessen noted, “Startups are staying private longer, because they have access to plenty of capital without tapping public equity markets, and because being public imposes a big burden in terms of dealing with short term-oriented investors and regulators. How should we adapt to that trend? The traditional VC model relies on liquidity within seven years in the form of a portfolio company’s sale or IPO. What if we never have an exit event?”

### **a16z’s Evolution: 2009 to 2013**

The co-founders formally launched a16z’s \$300 million first fund in July 2009. Andreessen commented on their early performance:

We knew we needed top-tier deal flow and thought that would just take time. Through our angel investing, we had about 50 startups in our pipeline. We figured we’d continue seed investing at a16z, leveraging success on that front to build our reputation. The biggest surprise was that it happened much faster than we expected.

That was a little disconcerting: we wondered if we were victims of adverse selection, just handing out money to losers. So, we tracked the deals done by top-tier VCs during our firm’s first year and learned that we were seeing about 60% of those deals. Other VCs told us that this indicated very strong deal flow.

An early investment thesis at a16z was that other investors were underestimating the growth potential and ultimate size of the consumer Internet. Horowitz explained:

When we started a16z, many investors were convinced that Google was an anomaly and that no other Internet company would ever again grow that big. At Netscape’s peak in 1998, we had 90% market share and 50 million users, implying only 55 million Internet users worldwide, with half on dial-up. Now, nearly three billion people are online, and it’s possible to grow a company like Facebook or Twitter from zero to 100 million users in just a few years. We thought, wow, it’s finally happening, and investors haven’t yet wrapped their heads around what this means. Even with multi-billion dollar valuations, investors might be underestimating companies’ potential. And, these franchise Silicon Valley startups with magical CEOs and market-capturing ideas become crazy magnets for talent, so their growth becomes a self-fulfilling prophecy.

Consistent with this thesis, the co-founders made investments in late-stage, high-profile consumer Internet companies, in addition to the planned seed investments. Some of these late-stage investments were completed as private sales in the secondary market, rather than traditional venture rounds. In September 2009, for example, a16z made a \$50 million investment in Skype as part of a

consortium that purchased 56% of Skype from eBay for \$1.9 billion. The deal was controversial, because Skype's founders, who had left the company, had sued eBay, Skype and the consortium over copyright infringement related to intellectual property (IP) that the founders controlled. Horowitz noted, "I took lots of phone calls from freaked-out limited partners." He elaborated:

We thought it was a great bargain. We were paying half what this fast-growing company was worth. Everybody said it was an undoable deal due to IP risk. But we thought about it from the founders' perspective, consistent with our investment philosophy. We figured they wouldn't want to shut down this amazing company that they'd built—the most lasting achievement of their lifetimes. So, we calculated a range where a deal would make sense for both sides.

By mid-2010, a16z had invested two-thirds of its fund in 24 companies, including Kno, Asana, Zynga, Instagram and Foursquare.<sup>15</sup> Andreessen reflected, "Once we knew that we had good deal flow, Ben and I threw the harpoon. We raised more capital faster than we thought we would, and we aggressively ramped up our ambitions for building an operating team."

In June 2010, a16z announced that it had hired public relations practitioner Margit Wennmachers and executive recruiter Jeff Stump—top professionals in their respective fields—as operating team partners. In response, *The New York Times* wrote, "Andreessen Horowitz views venture capital as much broader than simply investing money in startups... the firm is trying to become a Silicon Valley hub for companies and people."<sup>16</sup>

In September 2010, a16z announced its \$650 million Fund II. The firm quickly made several sizable investments in consumer Internet companies, including \$100 million in Facebook, \$40 million in Groupon, and \$80 million in Twitter. Critics argued that the firm was overpaying and relying on connections to participate in private share sales, which were outside the scope of traditional venture capital. For example, Matt Cohler, a GP at Benchmark, said, "There's also money to be made in pork bellies and oil futures, but that is not what we do."<sup>17</sup> Nonetheless, in April 2011, a16z raised another \$200 million co-investment fund tied to its second fund, giving the firm more flexibility to invest in growth-stage companies.

Microsoft's May 2011 purchase of Skype for \$8.5 billion yielded a16z a four-fold return on its investment and validated a16z's push into growth-stage investing. In January 2012, a16z announced that it had raised \$1.5 billion in the form of a \$900 million Fund III and a \$600 million parallel fund, with the latter reserved for more opportunistic investments, typically in larger, late-stage rounds. While venture funds of more than \$1 billion were rare, a16z had easily exceeded its initial \$900 million target. Shortly after raising Fund III, a16z announced that its six general partners would all donate at least half of their lifetime income from investing activities to philanthropy.

Over the next 18 months, the firm made scores of venture round investments in companies such as GitHub, Fab.com, zulily, GoodData, Airbnb, Udacity, Pinterest, and Quirky—all the while adding partners and advisors, as it more fully developed its investment and operating teams. (See **Exhibit 6** for a16z's investments and **Exhibit 7** for management bios.) While a16z's first fund still had several investments for which exits had not yet been realized, the fund had already made distributions to limited partners approximately two times capital invested, due largely to exits from investments in Skype, Instagram, and Nicira.<sup>18</sup>

## General Partners and Limited Partners

As a16z added general partners, the co-founders refined their hiring criteria. Andreessen said, “Our requirements are simple, but candidates who meet them aren’t easy to find. First, candidates have been a founder, a CEO, or both. Second, they are effective at coaching technical founders. Third, they value our culture of teamwork.” Scott Weiss, a16z’s fourth GP, reflected on his decision to join:

I’d previously considered venture capital and had crossed it off my list. VC firms are surprisingly hierarchical. In many firms, there is a silverback gorilla, with other folks picking fleas off of him. That had no appeal for me. Also, a VC firm can be a really quiet place, almost like a morgue. There’s no activity—just a lot of empty offices, because you’re expected to go out and catch and kill your prey. Having been an operator and an entrepreneur, I love a busy office. Due to these concerns, my job interview with Marc and Ben was more like an argument. I told them everything I hated about venture capital. They had an answer for each complaint. They said, “You’re right. That’s why we’re building this firm.”

Unlike many other VC firms that hired GPs with prior investing experience, all of a16z’s GPs had experience as tech company founders and/or CEOs. Two a16z GPs—Peter Levine and Chris Dixon, who also had been entrepreneurs and CEOs—had previously been partners at other VC firms. a16z’s GPs were supported by other investment professionals who assisted with deal sourcing, diligence, negotiating and structuring investment terms, and portfolio company advisory work.

To fund the considerable cost of the large operating team that worked in tandem with a16z’s investment team, general partners earned cash compensation (i.e., salary and annual bonus before carried interest on capital gains) that was roughly one-quarter to one-third of what their counterparts might earn at another top venture capital firm. Scott Kapor, the firm’s managing partner, commented, “From a limited partner’s perspective, this creates alignment. Since our GPs’ income comes disproportionately from carried interest, rather than from cash compensation, they only make a lot of money when our LPs see big returns, too.”

a16z’s limited partners were a typical mix of mostly U.S.-based institutional investors, including pension funds, university endowments, and foundations. The co-founders were pleased with the firm’s relationships with its LPs, and believed that a16z provided better information than LPs got from other VC firms.

a16z’s fees to LPs were at the higher end of VC industry averages, but in line with those charged by other top firms. The firm charged a 2.5% management fee on committed capital (the typical VC range was 2.0% to 2.5%) and a 25% carried interest on any cumulative net income (the typical VC range was 20% to 25%). Net income was calculated after deducting management fees from capital gains—an unusual concession to LPs. For net income above a threshold, the carry stepped up to 30%. For the parallel Fund III, management fees were assessed on invested rather than committed capital.

## a16z’s Investing Approach

a16z screened about 3,000 investment opportunities per year. GP Jeff Jordan described their investment criteria, “We look for strength rather than lack of weakness. It’s easy to point out what’s wrong with a deal, particularly when you say ‘no’ 98% of the time. We want a passionate advocate—at least one general partner who is just pounding the table to do the deal.” Andreessen concurred, “Google, Facebook, eBay, and Oracle all had massive flaws as early-stage ventures, but they also had overpowering strengths. Some VCs have all their partners score a deal’s potential. We’ve learned that

those aggregate scores don't correlate strongly with ultimate returns. With that approach, you get the mush in the middle, with no great strengths but no big flaws." Ultimately, any a16z GP could make a "go" decision if they felt strongly; the co-founders did not serve as tie-breakers, nor did they reserve veto power. a16z's review process was different than that employed by many other VC firms, where partners only invested after majority votes and after their "silverback" failed to exercise his veto.

Throughout the deal review process, a16z's team endeavored to treat entrepreneurs with respect. Horowitz explained:

Venture capitalists in Silicon Valley are notorious for both their tardiness and distractedness. Entrepreneurs often joke about VCs who show up to meetings late then spend the entire meeting on their phones and computers. At Andreessen Horowitz, if you are late to a meeting with an entrepreneur, the fine is \$10 per minute... 100% of the entrepreneurs who pitch us get a prompt and specific answer. If the answer is no, then we always provide the reasons why.<sup>19</sup>

Weiss had devised a five-question survey that was sent to entrepreneurs after a16z had passed on investing, assessing their experiences. (See **Exhibit 8**.) 70% of the entrepreneurs completed the survey; their responses to the question, "Would you recommend a16z to your friends?" indicated a very high level of satisfaction.

Measuring investment performance was complicated by the fact that it often took many years to exit an investment. Kupor explained:

To succeed as a VC, you have to do three things really well: source, pick, and win. You have to source the very best deals—high-potential ventures whose founders will allow you to invest. Next, you have to pick the right opportunities from that pool. Lastly, you have to do everything you can to win—to accelerate the development of the startups you've picked.

With respect to sourcing, we do a monthly report looking at deals done by Sequoia, Accel, Greylock, Benchmark and other peers. If we didn't see a deal they did, we ask why. And if we saw a deal but we passed, we ask if we made the right call. With respect to picking, the honest answer is that we're not going to know for many years whether we're doing well. It takes ten years to see returns for all of the investments in a given fund. Due to long feedback cycles, it's also tricky to measure whether we've improved portfolio companies' odds of winning. But we can track inputs—for example, have other venture firms provided follow-on financing at increased valuations; how is the company tracking against its milestones; how many sales/BD introductions have we provided that help accelerate the sales growth of the company; and so forth.

Dixon provided his perspective:

The popular view of venture investing is that it is about picking good companies, because that's what's important with public equities. But you can't apply the logic of public equity markets, where by definition anyone can invest in any stock. Success in VC is probably 10% about picking, and 90% about sourcing the right deals and having entrepreneurs choose your firm as a partner.

## a16z's Operating Team

When Horowitz and Andreessen set out to build an operating team, they had three principles in mind. First, efforts would need to be scalable. For example, a16z professionals could coach portfolio companies on how to manage their recruiting efforts, but they would not conduct specific talent searches for the companies. Doing so would require a huge staff.

Second, the operating team's efforts would be structured as a set of multi-sided platforms, each harnessing network effects to deliver long-term value for all platform participants. For example, a16z's marketing team would maintain close relationships not only with the firm's portfolio companies, but also with PR agencies and journalists. Furthermore, the team would endeavor to help the PR agencies and journalists, for example, by providing introductions or suggesting ways to position a story—even if that story did not relate to an a16z portfolio company. The goal was to transcend transactional relationships. If PR agencies and journalists appreciated such “no-strings-attached” help, they might reciprocate by providing information or assistance to a16z in the future. Or, they might recommend a16z to promising entrepreneurs, improving the firm's deal flow.

Third, the co-founders wanted the operating team to be helpful to technical founders, but not to serve as a crutch. Andreessen explained, “We are not training wheels for startups. We do not do things for companies that they must be able to do for themselves. We don't hire for them or run their PR. We don't raise their next round. We don't have designers we consign to them. We're building a network and we're plugging them into that network, which is not the same as servicing them.”

The process of managing entrepreneurs' expectations about how the operating team could add value began before a16z invested, when senior members of the operating team delivered a data-rich “reverse pitch” to a startup's team, explaining how they worked with portfolio companies. Additionally, a16z had an on-boarding program for new portfolio companies that clarified how they could leverage the operating team.

### *Technical Talent*

The co-founders hired Shannon Callahan, who had led human resources at Opsware, as one of a16z's first employees. Most large VC firms provided some recruiting services—primarily at the executive level—for their portfolio companies. Callahan's group would eschew traditional executive recruitment and instead develop relationships with the top 10,000 to 20,000 engineers, designers, and product managers in Silicon Valley, offering them introductions and career advice. She noted, “Our advice might have nothing to do with a16z portfolio companies. A bigger company might be a better move for them, depending on the stage in their career, and we help facilitate those introductions. Someday, that engineer might launch an amazing startup and remember us. Or they might help us with diligence on a new technology.”

Callahan managed a staff of eleven. They identified talent through: 1) referrals from engineers already in the a16z network; 2) online sources, including blogs and social media; and 3) relationships with contingency recruiters. Five group members focused on building a16z's relationships at 22 universities, for example, by arranging for portfolio companies to attend campus events. In addition, the group provided best practices advice to portfolio companies around traditional human resources issues such as compensation, benefits, and training.

The technical talent group measured its success based on the size and quality of the network they managed. They also monitored the rate at which attendees at a16z-sponsored programs—for example, events for mobile developers, data scientists, and new college graduates—were converted

into network participants. Finally, the group measured the number of consultations it provided to portfolio companies.

### *Executive Talent*

Jeff Stump, formerly a senior partner at the executive recruiting firm Howard Fisher Associates International, was hired in 2010 to build the executive talent group. Stump recalled:

We agreed that building and managing an executive network would be the focus of our efforts. It would not be about recruiting, which doesn't scale and would lead to transactional relationships with executives. Having one or two recruiting partners trying to serve all of the recruiting needs of portfolio companies is an empty promise—one that a lot of entrepreneurs have already experienced with other VCs. I realized that our group could find many ways to create value for the very best executives by simply connecting and counseling them throughout their careers. And, building these long-term relationships could be leveraged by the portfolio and could improve deal flow as well.

The executive talent network centered on search firms, a16z portfolio companies, and executives. Executives received career coaching and connections to peers, portfolio companies, and search firms. a16z portfolio companies received introductions when a connection would benefit all parties, and also got advice on executive hiring and onboarding practices. Stump's group also helped portfolio companies anticipate their longer-range hiring needs—potentially a big benefit, because executive searches typically took many months. Finally, recruiting firms were managed as highly valued partners. Stump commented, "We want search firms to be eager to work with our portfolio companies because we make their searches more efficient. Thanks to our coaching, our portfolio companies can be more specific about their needs than other clients. They are also better at screening applicants and structuring attractive offers."

By December 2013, Stump's group of seven had met with over 3,000 executives. Over 70% of referrals to new executives came from existing contacts. As Stump noted, "Stars know stars."

### *Marketing*

When launching a16z, Andreessen and Horowitz had retained Margit Wennmachers and her marketing/public relations agency, The OutCast Agency, to build awareness. The co-founders recognized that their decision to market a16z was controversial. As one reporter noted, "Self-promotion was shunned by venture capitalists as crass... Investment partners at Sequoia even used a disparaging name for venture capitalists who promoted themselves to the media: 'parade jumpers.'"<sup>20</sup> Andreessen responded, "Our startups love the fact that we're well-branded. It makes it easier for them to hire. We've had entrepreneurs say they selected us because of this." He added:

The notion that VCs should keep a low profile comes from a bygone era, when most new ventures were spinoffs from established corporations, and entrepreneurs knew the VC who'd backed their spinoff's parent corporation. There was no need for publicity then. Such spinoffs still happen today, but they represent a much smaller share of total deal flow. Trawling for spinoffs would not have surfaced the founders of Google, Facebook, Twitter, or Dropbox. New ventures have more varied origins now, and to connect with them, you need to be top of mind across the ecosystem. That means marketing.

Horowitz and Andreessen recognized that an in-house marketing team could both assist the firm's portfolio companies and generate the same kind of network effects that they were harnessing

with talent. They brought Wennmachers on board to build relationships with the business press, trade press, and marketing/PR agencies. Wennmachers recalled:

Media attention to venture capital firms is usually related to big returns. Of course, we didn't have any investment track record at the outset, so we had to focus attention elsewhere. The a16z story – founder-friendly, “software eating the world,” building value through our operating team – is compelling. Companies fail at branding when their strategy and operations are not aligned. Here, everything was in sync and we were quickly able to achieve our branding goals.

Wennmachers managed a group of six employees who supported the GPs, organized events, developed content, and promoted diversity initiatives. Wennmachers believed that it was difficult to quantify the group's impact, noting, “You can't just count stories. What if we prevent a negative story about a portfolio company from being published? What's that worth?” It was easier to track awareness and perceptions of the a16z brand. For example, in a 2012 survey, entrepreneurs in tech hubs such as Silicon Valley and New York chose a16z as the VC firm they'd most want as an investor.<sup>21</sup> Partly in response to such perceptions, by the end of 2013, attitudes toward the marketing of VC firms had changed, and most leading firms – including Sequoia – had retained or hired public relations and marketing specialists.

### *Market Development*

In early 2011, a16z hired Mark Cranney, who previously had run sales organizations at Opsware and a major Hewlett-Packard (HP) division, to build a market development group. Cranney knew that Fortune 500 executives regularly visited Silicon Valley to get briefed by large technology vendors such as Cisco, HP, and Oracle. He realized that a16z could piggyback on those trips to expose corporate executives to innovations from a curated set of startups. Cranney explained:

We invite executives from big corporations like Coca Cola, P&G, or Vodafone – CIOs, CMOs, and so forth. They pick topics of interest, say, security or big data, and then our group lines up a bunch of startups to meet with them. Most are from our portfolio, but we also may include some other non-portfolio companies who've got something relevant to show. It helps us when these entrepreneurs tell friends about introductions we've brokered, and it improves the odds that they'll let us invest in later rounds.

The meetings yield fantastic value for all concerned. The corporate executives learn about bleeding edge technologies. They also enjoy interacting with peers from other corporations. Our portfolio companies get input on their products and sales leads. We are able to watch their sales pitches and provide feedback right afterward. Normally, it would be odd for a VC to tag along on a customer call, but when it's done in our office, it's natural for us to sit in.

During 2013, Cranney and his staff of 14 hosted 1,500 briefing sessions, leading to about 8,000 sales pitch opportunities for a16z's portfolio companies. Kupor noted, “Success for market development is if all these big corporations think we are a go-to, trusted advisor for formulating their technology strategies. If we do that, then our portfolio companies will have a real shot at delivering value to these corporations.”

In addition to the briefings at a16z's offices, Cranney's group hosted larger conferences, often focused on vertical markets, such as a Washington, DC conference on software for government markets attended by 300 tech buyers and policy makers. The group also coached portfolio companies on sales and marketing best practices – for example, how to hire a head of sales. Finally, they advised

portfolio companies that developed applications for major technology platforms such as Apple's iOS, Google's Android, and Facebook Platform on how to position and market their products.

### *Corporate Development*

The last group added to a16z's operating team was corporate development. Jamie McGurk, a former investment banker, was hired in mid 2012 to build the group. Comprised of four professionals, the group developed a network of financing and merger and acquisition (M&A) relationships in order to provide guidance and contacts to portfolio companies. They stayed in touch with other VCs, debt providers, investment banks, hedge funds, mutual funds and sovereign wealth funds. They also met regularly with corporate development officers at technology companies such as Google, Yahoo, eBay, HP, and EMC to understand their M&A priorities.

### **Firm Governance**

The co-founders had conceived of a16z as a professional services firm that would be run more like a corporation. Weiss explained, "All of our operating groups have goals, and we measure everything. Everybody gets timely, candid feedback. Even the GPs get 360-degree performance reviews. For us, this is second nature because we've all run successful companies that were managed by objectives."

The GPs and operational group heads reported to managing partner Kapor. He explained, "I report to Marc and Ben, who effectively are co-CEOs. Nobody reports to the GPs. We did that deliberately to encourage people to think in terms of teams rather than silos. At most venture firms, GPs have a dedicated principal or associate who works only for them. We think that practice fosters vertical at the expense of horizontal communications."

The co-founders retained sole control over hiring and firing decisions in order to reduce political infighting. Andreessen commented:

Some VCs are structured as partnerships with equal control for all the GPs and requirements for supermajority votes for hiring, firing, and other major decisions. When partners in those firms fight over priorities, they can turn a firm into the *Lord of the Flies*. We prefer a corporate structure, where the CEO has clear power. Our promise to everyone in the firm is that we will run it properly. It will be a meritocracy, everybody will work hard, and we won't tolerate a bad GP.

The co-founders also decided against creating a promotion path to general partner for junior investment team professionals. Horowitz explained:

In most VC firms, typically only the top two partners have good returns. And, the best entrepreneurs only want to work with the best partners. Furthermore, it's hard to get a founder/CEO to start as a junior partner. So, we decided against having junior partners. Also, with an up-or-out promotion path, you get internal competition among the junior people and all sorts of messy politics. People hoard information and channel it to their sponsors. You get half-hearted commitments to helping peers. You get disputes over who will pursue opportunities and who gets credit for wins.

a16z's GP pay had two components: cash compensation (i.e., annual salary and bonus) and carry-based compensation. Cash compensation was the same for all GPs. Carry-based compensation differed for two groups: the founding partners and all other GPs. Andreessen and Horowitz earned the same carry, but earned more carry than the other GPs, who also earned equal amounts. Unlike

many other venture firms, in which a portion of a GP's carry was linked to the performance of investments they had personally sourced, none of a GP's compensation was related to specific deals. Horowitz commented, "We don't even track capital gains by partners. We want Jeff to be thrilled when Chris's deals succeed and to do everything he can to help Chris's win, and vice versa." When new GPs joined the firm, their carry came solely from the founding GPs' share; other GPs did not have their carry reduced.

Operating group heads and some other senior professionals also earned some carry-based compensation, but less than the GPs. For most of the other professionals, compensation took the form of salary plus a cash bonus linked to group objectives. Most non-GP professionals at a16z had been granted the title of "partner." Kupor noted, "This is a symbol of how we value teamwork." (See Exhibit 9 for comparison of top VC firms' team structures.)

## Looking Ahead

After the market development conference, Horowitz, Andreessen, and a16z's other general partners met to debate whether and how to accelerate the firm's growth. The largest venture capital firms—like New Enterprise Associates, which was five times a16z's size with \$13 billion in committed capital—invested across stages, sectors, and geographies. Should a16z diversify in this manner? If not, could the firm significantly expand its share of venture capital invested in Silicon Valley-based IT startups?

The firm had strong momentum and had made some very successful investments. However, since it was only four years old, a16z did not yet have enough investment history to calculate fund returns. Lacking performance data that could fully validate the payoff from a16z's strategy—in particular, from the big investment in its operating team—would institutional investors back efforts to boost its scale further? Andreessen asked:

If we doubled our committed capital, would we need to double our number of general partners? What about the size of our operating team? Where are the scale economies in this business? And what breaks if you double everything? Can we preserve our culture and values? Our network model relies on communication between our partners. The number of potential communications paths in a network increases exponentially with its size, so how do we keep information flowing in the right directions? Can you have an intimate discussion about the risk/reward balance of potential investments among 20 general partners?

Most venture capital partners sat on no more than about ten portfolio companies' boards; beyond that point, they could be stretched too thinly to be effective at advising the companies and at sourcing new deals. In light of this constraint, one way to grow a firm's assets under management without a one-to-one expansion in the number of general partners would be to increase the amount invested per portfolio company. It would be difficult to pursue this path, however, due to the well-entrenched venture capital industry practice of funding startups through syndicates of multiple investors.

**Diversification** a16z could accelerate its growth—and put more capital to work—by broadening its: 1) *geographic focus* beyond Silicon Valley, to include New York and/or international markets; or 2) *sector focus* beyond information technology, to include clean tech and/or biotech. Andreessen elaborated:

Clean tech has been out of favor in recent years, but that could change. Diversification has been very helpful to top venture capital firms that span across info tech, biotech and clean tech.

Valuation booms are not synchronized across these sectors, so you can smooth out fund performance if you are diversified.

Geographic diversification is tricky. There's amazing opportunity in China. But at the same time, you can lose lots of money there if you don't know what you are doing. New York is booming, too. But new ventures there face challenges attracting engineers, and it's hard to determine if that caps their upside, compared to similar firms in Silicon Valley.

We could broaden our investment focus even further. Some of Silicon Valley's most successful entrepreneurs—Elon Musk, Larry Page, Peter Thiel—have been critical of the VC industry's failure to back huge, societally transformational ideas. They want to see super large-scale projects, like fusion power, asteroid mining, or Musk's hyperloop. What's a model for making venture investments in projects that require massive amounts of capital, have low odds of working, and long horizons for knowing whether there'll be a gigantic payoff or a gigantic loss?

**What Could Go Wrong?** As a16z's partners assessed their options, they also considered what could derail the firm's strong momentum. Horowitz commented, "I worry more about inside problems than outside threats. Complacency is a big danger. And many professional service firms unravel over disputes about how to transfer the founding partners' equity to the next generation." Wennmachers said, "When you are famous and successful, people tell you what they think you want to hear, and you can lose touch with the market."

Weiss speculated, "Can our operating team be copied? I suppose, but it's expensive. An established VC would have to ask its partners to take a big pay cut to fund something similar. It's easier to disrupt an industry through an organizational innovation when you launch de novo."

Jordan added, "Every VC says they are founder-friendly and they have partners with deep operating experience. It doesn't take many failures to deliver on those promises to undermine a firm's credibility. We'll only sustain our momentum if we consistently deliver on our promise."

**Exhibit 1** Andreessen and Horowitz's Management Biographies**Marc Andreessen - Co-founder and General Partner, Andreessen Horowitz**

Marc Andreessen is co-founder and general partner of Andreessen Horowitz, a tech venture capital firm founded in July 2009. He currently serves on the boards of eBay, Hewlett-Packard, and Facebook, among others.

Best known as co-author of Mosaic, the first widely-used web browser later renamed Netscape Navigator, and co-founder of Netscape Communications, Andreessen's experience also includes his work as CTO of AOL, as well as chairman and co-founder of web infrastructure company Loudcloud, later named Opsware Inc. and acquired by Hewlett-Packard.

Andreessen holds a Bachelor of Science in computer science from the University of Illinois at Urbana-Champaign.

**Ben Horowitz - Co-founder and General Partner, Andreessen Horowitz**

Ben Horowitz is co-founder and general partner of Andreessen Horowitz, a tech venture capital firm founded in July 2009. Horowitz co-founded Loudcloud, later renamed Opsware Inc., with Andreessen in 1999 and served as CEO of the company before it was acquired in 2007 by Hewlett-Packard. He was most recently vice president and general manager of Hewlett-Packard's Business Technology Organization Unit.

Prior to co-founding web infrastructure company Loudcloud, Horowitz ran several product divisions for Netscape, including Netscape's Director and Security product line before becoming vice president and general manager of America Online's e-commerce platform division. Before joining Netscape in 1995, Horowitz was in various marketing roles at Lotus Development Corporation (LotusNotes).

Horowitz received a master's degree in computer science from the University of California, Los Angeles, and holds a Bachelor of Science from Columbia University.

Source: Company documents.

Exhibit 2 Ben Horowitz Blog Post, April 2010

## 04.13.10 // Four Things Some VCs Do That I Don't Like

“They smile in a n!\*)#% face  
And for what  
They got the game f!@#^& up  
And want my thang f!@#^& up”  
—Dr. Dre

After being an entrepreneur for most of my adult life, I've now been a part-time angel investor for 5 years and a full-time venture capitalist for the past 9 months. During that time, I've come to appreciate the real value that great venture capitalists provide: amazing informational awareness, comprehensive business networks, providing brand cover for companies so that they can recruit and raise more money effectively, and more.

Still, some VCs do things that I really don't like. This post is for them.

### 1. *They are fake casual*

A lot of VCs dress casually, speak casually and encourage the companies in which they invest to have casual board meetings and casual discussions with investors. They say things like, “We're part of the team with you and we're building this together, so no need for formal behavior, formal thinking, or unnecessary preparation.” This would all be terrific—if it were actually true.

In reality, the entrepreneur is building the company, and I've yet to see a VC who shows up in the company's office at 8 am and works until 11 pm 7 days/week, so no: they are not “part of the team”. More importantly, VCs invest other people's money into their companies and have a strong fiduciary responsibility to make sure that the entrepreneurs run their companies properly. Sure, casual board meetings might be fine as long as the company is delivering terrific results. However, at the first sign of trouble, I hear things like: “The founder is not really capable of being CEO. He doesn't even present critical information in an organized fashion at the board meeting.” Well, maybe he would have done that had you not instructed him to “keep things casual”.

As an entrepreneur, you should take board meetings seriously because board meetings are serious. If one of your VCs implies that board meetings aren't serious business or that they prefer that board meetings be primarily open-ended discussion, you should view this as a 5 year-old child requesting complete autonomy and unlimited candy—that may be what they are asking for, but what they really crave is structure.

### 2. *They want to grab a cup of coffee*

Some of my best friends are VCs, and I am always happy to see them. Some VCs have important business to discuss with me and I look forward to those meetings. Some VCs are extraordinarily smart and meeting them is educational, and I am grateful for their insight. However, many VCs who want to have coffee with me are none of the above. Worse yet, they have no agenda and no purpose. They just want to “compare notes.”

When I was CEO, I didn't take meetings with no agenda and no purpose. I'm not sure why I should take them as a VC. Of course, when I was CEO, people knew better than to request a meeting with me with no agenda and no purpose. I think that these VCs have mammas that didn't raise them right.

More importantly, VCs having coffee with one another is a key conduit for VC groupthink. This is how you get 30 venture-backed startups going after the same market at the same time. It's bad news for VCs and it's bad news for their companies.

My proposal: less coffee, more original thinking.

### 3. *They confuse pattern matching with knowledge*

As a VC, I have come to understand the value of "VC pattern matching." Experienced VCs have been on dozens of boards and seen thousands of deals. As a result, they recognize patterns of strategy and behavior that generally work, and patterns that generally fail. This is very valuable information for an entrepreneur who, if lucky, only sees one deal in his career.

Unfortunately, many VCs overreach with their pattern matching. Rather than saying, "Most companies who sell at this stage, regret doing so, and here's why," they'll say, "Don't sell now, that's a stupid idea." Other commonly expressed and incomplete patterns include "don't hire very fast", "hire faster", "don't build a sales force", "build a sales force", "don't build downloadable software", and "build an iPhone app". None of this is useful input for your specific company.

A pattern-matched instruction without a rationale provides very little help. Either admit that you are pattern matching and that pattern matching is limited, or explain yourself.

### 4. *They are pseudo-tough*

VCs often confuse marginal social courage with real courage. For example, they think CEOs who fire people easily are tough. I've fired dozens of people and laid off hundreds. None of them was easy—not a single time. Having an easy time firing your loyal employees indicates a lack of courage and a lack of leadership. More specifically, it indicates a lack of willingness to really understand the negative consequences of those actions. If you fire people easily, you likely lack the toughness to look in the mirror.

VCs who value pseudo-toughness often display it themselves. I see them bully entrepreneurs by directing them to do things without having the intellectual courage to explain "Why?". They berate the CEOs in their companies, but don't have the cojones to stand up to their own senior partners. They undermine their own CEOs in their own companies by interfering with important decisions, but don't have the moral fortitude to even tell the CEOs that they are doing it. These behaviors are not tough; they are pseudo tough. Pseudo tough VCs really annoy me, and damage their companies in the process.

If you are a VC and want to be tough, be *real* tough. For a VC, real tough is:

- The strength to explain in detail to an entrepreneur what she is doing wrong when the company is doing well, in order to improve her performance.
- The courage to do what's right even if it makes you look really weak to the partners in your firm.
- The valor to tell an entrepreneur precisely why you are not going to invest in her company rather than giving the traditional "VC no" by just going dark.

Give it a try, tough guys.

Source: Company documents.

Exhibit 3 Excerpts from Ben Horowitz Blog Post, April 2010

## 04.28.10 // Why We Prefer Founding CEOs

You're just a rent-a-rapper, your rhymes are minute-maid  
I'll be here when it fade to watch you flip like a renegade"  
—Rakim, *Follow the Leader*

When my partner Marc wrote his post describing our firm, the most controversial component of our investment strategy was our preference for founding CEOs. The conventional wisdom says a startup CEO should make way for a professional CEO once the company has achieved product-market fit. In this post, I describe why we prefer to fund companies whose founder will run the company as its CEO.

*The macro reason: that's the way most of the great technology companies have been built*

At Andreessen Horowitz, our primary goal is to invest in the great technology franchises. As we looked at the history of great technology companies, we discovered that founders ran an overwhelming majority of them for a very long time, including:

- Acer—Stan Shih
- Adobe—John Warnock
- Amazon – Jeff Bezos
- AMD—Jerry Sanders III
- Apple – Steve Jobs
- DEC—Ken Olsen
- Dell—Michael Dell
- EA—Trip Hawkins
- EDS —Ross Perot
- Hewlett-Packard—Dave Packard
- IBM—Thomas Watson, Sr. (\*)
- Intel—Andy Grove (\*)
- Intuit—Scott Cook
- Microsoft —Bill Gates
- Motorola—Paul Galvin
- nVidia—Jen-Hsun Huang
- Oracle—Larry Ellison
- Peoplesoft—Dave Duffield
- Salesforce.com—Marc Benioff
- Seagate—Al Shugart
- Siebel—Tom Siebel
- Sony—Akio Morita
- Sun—Scott McNeely
- VMware—Diane Greene

(\*) While not technically cofounders, Andy Grove and Thomas Watson, Sr. were the driving force behind Intel and IBM, respectively. Andy Grove was Intel's third employee (after the two cofounders Robert Noyce and Gordon E. Moore). Thomas Watson, Sr. joined as a General Manager of the Computing Tabulating Recording Company, but renamed the company International Business Machines and turned it into the IBM we recognize today.

In addition, founders run today's most promising new companies such as Zynga (Mark Pincus), Facebook (Mark Zuckerberg), Twitter (Ev Williams), Workday (Dave Duffield and Aneel Bhusri) and Fusion-io (David Flynn).

Source: Company documents.

**Exhibit 4** Historical Venture Capital Return Data

	1- Year	3- Year	5- Year	10- Year	15- Year	20- Year	25- Year	30-Year
U.S. Venture Capital Index	8.9%	13.5%	5.7%	7.8%	22.8%	30.7%	19.8%	17.1%
S&P 500 Index	20.6%	18.5%	8.0%	7.6%	5.3%	7.9%	9.2%	9.8%

Source: "U.S. Venture Capital Index and Selected Benchmark Statistics," Cambridge Associates LLC, June 30, 2013, p.3.

**Exhibit 5** Venture Capital Summary Statistics

	1992	2002	2012
# of VC Firms in Existence	358	1,089	841
# of VC Funds in Existence	616	2,119	1,269
# of Principals	4,996	14,541	5,887
# of 1 <sup>st</sup> Time VC Funds Raised	13	25	43
# of VCs Raising Money This Year	78	176	162
VC Capital Raised This Year (\$B)	\$4.9	\$15.7	\$20.1
VC Capital Under Management (\$B)	\$28.7	\$272.1	\$199.2
Avg. VC Capital Under Mgt per Firm (\$MM)	\$80.2	\$249.9	\$236.9
Avg VC Fund Size Raised This Year (\$MM)	\$62.8	\$89.2	\$124.1
Largest VC Fund Raised to Date (\$MM)	\$1,775	\$6,300	\$6,300

Source: "National Venture Capital Association Yearbook 2013," Thompson Reuters, March 2013, p.9.

**Exhibit 6** a16z Investments by Year and Stage

Year	Seed	Series A	Series B	Series C	Series D/E	Other	Total
2013	42 (1.7)	18 (8.8)	13 (24.0)	4 (35.0)	9 (55.0)	5	91
2012	31 (1.6)	18 (9.0)	10 (20.0)	8 (25.0)	3 (50.0)	5	75
2011	16 (1.5)	12 (7.6)	13 (20.0)	5 (38.7)	3 (48.0)	3	52
2010	8 (0.8)	7 (6.3)	4 (20.0)	2 (30.8)	0	1	22
2009	1 (2.5)	5 (7.9)	2 (14.6)	0	0	0	8
Totals	98	60	42	19	15	14	248

Source: Adapted by casewriters, based on data from CrunchBase.

Note: Median round sizes are in parentheses (\$ million); note that they reflect total proceeds from all investors, not just a16z. "Other" includes venture rounds not classified by series, which tend to be later stage rounds along with private equity and debt investments.

**Exhibit 7 Management Bios****Shannon Callahan, Partner, Andreessen Horowitz**

Shannon Callahan runs Technical Talent and People Practices at Andreessen Horowitz. As a partner with extensive experience building teams, training managers, and evaluating and hiring technical talent, Shannon helps portfolio companies navigate the talent market and implement best practices on the people front. Previously, Shannon was a director of Human Resources at Hewlett-Packard. Shannon joined Opsware in 1999 as a recruiter and ran Human Resource for the company prior to its acquisition by HP for \$1.6 billion in 2007.

**Mark Cranney, Partner, Andreessen Horowitz**

In addition to seeking new investment opportunities, Mark leads the go-to-market function at the firm where he is responsible for helping portfolio companies define, build, and implement successful go-to-market models, programs, and channels.

Mark has over 20 years experience and has held a number of top positions at leading technology companies, including Hewlett Packard, Opsware, and Parametric Technology. Most recently Mark was executive vice president of worldwide field operations for Aster Data Corporation. Mark was also vice president for the Americas, software & solutions, for Hewlett Packard. Previously, he served as executive vice president of worldwide field operations for Opsware Inc., where he scaled field headcount from 10 to over 300 personnel. In addition, Mark was responsible for growing revenue from \$18 million to \$148 million over the course of four years, resulting in a \$1.65 billion acquisition by HP.

From 1998-2003, Mark held various vice president roles for Parametric Technology Corp., rising from area vice president, to senior division vice president for the Americas.

Mark has a Bachelor of Science from Southern Utah University, with a focus on business administration.

**Chris Dixon, Partner, Andreessen Horowitz**

Chris was the cofounder and CEO of two startups, SiteAdvisor and Hunch. SiteAdvisor was an internet security company that warned web users of security threats. The company was acquired by McAfee in 2006. Hunch was a recommendation technology company that was acquired by eBay in 2011.

As an investor, Chris cofounded Founder Collective, a seed venture fund, where he made early stage investments in GroupMe, BuzzFeed, Betaworks, and MakerBot. He's also been an active angel investor, making personal investments in technology companies including Foursquare, Kickstarter, Stripe, Warby Parker, Pinterest, OMGPOP, Behance, Stack Overflow, and others.

Chris started programming as a kid, and was a professional programmer after college at a high-speed options trading firm, Arbitrade. He has a BA and MA in Philosophy from Columbia and an MBA from Harvard.

**Jeff Jordan, Partner, Andreessen Horowitz**

Jeff Jordan is a partner at Andreessen Horowitz and serves on the board of the following portfolio companies: Airbnb, Belly, Circle, Crowdfunder, Fab, Lookout and Pinterest. Jeff also oversees the firm's investments in 500px, Fanatics, Julep and zulily, and is on the boards of Wealthfront and Zoosk.

Jeff was previously chief executive officer and then executive chairman of OpenTable, where he led the company during a period of accelerated domestic and international growth and oversaw its initial public offering.

Prior to OpenTable, Jeff was president of PayPal and responsible for establishing the company as the global standard for online payments. Earlier, he was senior vice president and general manager of eBay North America, overseeing eBay's growth into one of the Internet's leading commerce brands and driving the successful acquisitions of PayPal and Half.com.

Before joining eBay, Jeff was chief financial officer of Hollywood Entertainment and president of Reel.com. He also worked as senior vice president of finance for The Disney Stores at The Walt Disney Company.

Jeff holds an M.B.A. from the Stanford University Graduate School of Business, where he also serves on the Advisory Counsel. He received a B.A. in Political Science and Psychology from Amherst College.

#### **Scott Kupor, Managing Partner, Andreessen Horowitz**

Scott Kupor is the managing partner at Andreessen Horowitz, where he is responsible for all aspects of running the firm. He previously worked as vice president and general manager, Global Customer Support & Software-as-a-Service at Hewlett Packard. Scott joined HP in 2007 as part of the \$1.6 billion acquisition of Opsware, where he was senior vice president of Customer Solutions. In this role, Scott had global responsibility for the company's professional services, technical pre-sales and customer support organizations. Scott joined Opsware shortly after the company's founding and held numerous executive management positions including vice president, financial planning and vice president, corporate development. In these roles, he led the company's private financing activities as well as its initial public offering in 2001. Scott also started the company's Asia Pacific operations via strategic partnerships with NEC, NTT and Samsung and led the execution of the company's acquisitions of Tangram, Rendition, Creekpath and iConclude. Prior to Opsware, Scott represented software companies in both financing and mergers and acquisitions transactions at Credit Suisse First Boston and Lehman Brothers.

Scott graduated Phi Beta Kappa from Stanford University with a bachelor's degree in public policy with honors and distinction. He also graduated Order of the Coif and with distinction from Stanford Law School and is a member of the California Bar Association.

#### **Peter Levine, Partner, Andreessen Horowitz**

Peter Levine is a partner at the venture capital firm Andreessen Horowitz. He was previously senior vice president and general manager of the Data Center and Cloud Division at Citrix where he was responsible for revenue, product management, business development and strategic direction. Peter joined Citrix in 2007 through its \$500 million acquisition of XenSource, the leading provider of enterprise-class open source virtualization software, where he served as CEO, leading its 600 employees and establishing strategic agreements for the XenServer product family with customers such as Microsoft, Symantec, HP, NEC and Dell.

Prior to XenSource, Peter was a general partner at the Mayfield Fund. Before Mayfield, he was an early employee of VERITAS Software. During his 11-year tenure with the company, he helped to grow the organization to over 5,000 employees and more than \$1.5 billion in revenue. Peter served as executive vice president and was responsible for worldwide marketing, OEM sales, business development and several product divisions. He began his career as a software engineer at Spectrum Software and was later a software engineer at MIT's Project Athena.

Peter holds a B.S. in Engineering from Boston University and attended the Sloan School of Management at MIT. He is currently a management lecturer at the Stanford Graduate School of Business and a former entrepreneurship lecturer at the Sloan School. Peter also serves on the boards of Actifio, Bromium, Coho Data, DataGravity, GitHub, Instart Logic, Mixpanel and Udacity, and is on the board of trustees for Boston University and the National Outdoor Leadership School (NOLS), and the Dean's Advisory board for MIT Engineering.

**Jamie McGurk, Partner, Andreessen Horowitz**

Jamie runs the Corporate Development organization at Andreessen Horowitz, where he is responsible for helping portfolio companies anticipate, architect and execute successful financing and strategic transactions. Jamie has over 15 years experience in technology investment banking and venture capital with industry leading firms including Morgan Stanley and Thomas Weisel Partners.

Most recently, Jamie was a director in the technology investment banking group at Thomas Weisel Partners and its successor firm Stifel, where he was focused on guiding capital raising and M&A transactions for the firm's communication technology clients. Jamie was also director of investment banking and head of communications technology and digital media investment banking for ThinkEquity Partners, a technology-focused investment banking boutique. Previously, Jamie held positions in the investment banking divisions of Morgan Stanley and HSBC.

**Jeff Stump, Partner, Andreessen Horowitz**

Jeff is a partner at Andreessen Horowitz focused on executive talent. He is in charge of managing and expanding a talent network of hundreds of top technology executives, including finding and assessing talent, making connections to the portfolio and other companies in the a16z network, and advising the portfolio on executive HR practices. He was previously a partner at Howard Fischer Associates International, a boutique recruiting firm, where he completed more than 250 executive and board searches for companies of all sizes. Prior to joining HFA, Jeff worked for Technitrol, a communications components company, in charge of financial analysis, market research, merger and acquisition transaction support, due diligence and business valuations, as well as SEC compliance and financial reporting. Jeff also worked at Arthur Anderson LLP as a senior associate and a member of the Growth Company Practice and the Assurance and Business Advisory Group. He worked with a number of emerging businesses and consulted on a wide range of corporate finance issues including merger and acquisition transaction support, due diligence and business valuations, SEC compliance and financial reporting. Jeff received a B.S. in Business Administration from Drexel University.

**Scott Weiss, Partner, Andreessen Horowitz**

Scott Weiss is a partner at Andreessen Horowitz. Scott was formerly the vice president and general manager of the Security Technology Group at Cisco Systems, a \$1.3 billion line of business. Prior to this role, he served as the co-founder and CEO of IronPort Systems. Now part of Cisco, IronPort is a product of Scott's past experiences with companies that innovate with their use of security technology. He was one of the early team members at Hotmail, the world's largest Web-based email service. At Hotmail, Scott was responsible for all partnership and revenue generating business development efforts. After Hotmail's acquisition by Microsoft, Scott led a business development team at Microsoft with the MSN division. Scott left Microsoft to pursue new start-up opportunities. He developed a concept in the e-commerce space, and pulled together the core team to incubate the idea. In the process of seeking funding for the concept, he ultimately joined idealab! as managing director and entrepreneur in residence. Prior to joining Hotmail, Scott had been a consultant at McKinsey &

Co. He also worked at EDS for five years, completing a rotational management development program and ultimately promoted to group manager.

Scott holds an MBA from Harvard Business School and a BA from the University of Florida. He serves on the board of App.net, Bluebox, Bracket, Dwolla, Jumio, Lyft, Platfora, Quirky and Skout.

**Margit Wennmachers, Partner, Andreessen Horowitz**

Margit is a partner at Andreessen Horowitz, bringing over 20 years of technology marketing and PR expertise to the firm and its portfolio companies. Margit has created a top brand in venture capital managing Andreessen Horowitz's overall brand and marketing strategy, as well as advising portfolio entrepreneurs on their communications strategies. She also participates in the firm's deal flow, evaluating entrepreneurs and potential investments.

Prior to Andreessen Horowitz, Margit cofounded and ran The OutCast Agency, an award-winning communications firm with offices in New York City and San Francisco. Under her leadership over 14 years, the firm grew from two employees to a multi-million dollar business. At OutCast, Margit oversaw client work as well as the firm's business operations. A few of OutCast's notable clients include Amazon, Box, Facebook, GE, Instagram, Pinterest and Spotify.

Margit entered technology marketing when she joined the European office of a Silicon-Valley based startup. Before founding OutCast, she spent four years with Hill & Knowlton/WPP-owned Blanc & Otus, which was one of Silicon Valley's most successful and prestigious high-tech communications firms at the time, and served as a member of the executive management team. Their clients included the IBM Olympics, Sybase and VeriSign.

Margit was born and raised in Germany. She has lived and worked in Germany, Spain and the United States, and is fluent in English, German, Spanish and French. Margit is on the boards of the World Affairs Council and Next Fifteen Communications Group.

Source: Company.

**Exhibit 8 Entrepreneur Survey**

On a scale of 1-5,

How long did it take for you to get a meeting?

How were you treated during the meeting?

How quickly did we get back to you?

How satisfying was our response?

Would you recommend Andreessen Horowitz to your friends?

Source: Company documents.

## Exhibit 9 U.S. Staff of Top-Tier Venture Capital Firms, December 2013

Firm	General Partners	Other Investment Professionals	Investment Advisors	Functional Specialists	Funds Raised Since 2009 (\$ billion)	Founding Date	Offices
Accel Partners	8	16	10	3	\$2.6	1983	Silicon Valley (SV); UK; India; China
Bain Capital Ventures	10	18	3	2	\$1.2	1984	Boston; NYC; SV
Bessemer Venture Partners	15	14	3	1	\$2.0	1911	NYC; SV; Boston; Brazil; Israel; India
Charles River Ventures	7	4	None Listed	None Listed	\$0.7	1970	Boston; SV
Greylock Partners	14	2	17	3	\$2.0	1965	SV; Boston; Israel; UK
Kleiner Perkins Caulfield Byers	10	18	5	5	\$4.0	1972	SV; China
Matrix Partners	9	1	1	1	\$1.6	1977	Boston; SV; India; China
New Enterprise Associates	12	24	12	1	\$5.1	1978	SV; DC; China; India
Sequoia Capital	20	1	None Listed	6	\$5.6	1972	SV
Andreessen Horowitz	8	14	9	43	\$2.7	2009	SV

Sources: Firm websites; Crunchbase; ThomsonONE/VentureXpert; CB Insights; case writer analysis.

Note: Top-tier firms appeared on either of two lists: 1) six firms labeled "Group A" by Andrew Metrick and Ayako Yasuda in chapter 5 of *Venture Capital and the Finance of Innovation* (Wiley: 2010) based on exceptional returns for at least two funds of \$50 million or greater; and 2) nine firms with at least four general partners on the Forbes 2013 "Midas List" (May 27, 2013 issue) of top venture capitalists, based on GPs' number of exits with proceeds in excess of \$200 million over the prior five years. Accel, Benchmark, Kleiner Perkins, and Sequoia appear on both lists; Matrix and Charles River appear only on the Metrick/Yasuda list. Benchmark is excluded from the exhibit because it does not list team members on its website. Meritech Capital from the Forbes list is excluded because it focuses exclusively on late-stage investments. a16z, founded in 2009, is not on either list; it is too young to appear on the Metrick/Yasuda list, and the approach used to calculate the Forbes list favors firms that have been investing for at least ten years.

Exhibit reflects staff in U.S. offices only. "General Partners" also include founding partners, except at Greylock, where six founders are listed separately from the investing team. Bain Capital Ventures uses the title managing director rather than GP. Bessemer, Greylock and Sequoia do not use the GP title; all individuals with the partner title are listed as GPs above. "Other Investment Professionals" includes VPs, principals and, in firms that use the GP title, junior partners. "Investment Advisors" includes venture partners, operating partners, entrepreneurs-in-residence, and advisors. Functional specialists assist portfolio companies with recruiting, marketing, public relations, and/or business/corporate development. Staff totals do not include administrative support staff such as CFOs, controllers, general counsels, etc.

Funds raised since 2009 includes funds targeting international markets.

## Endnotes

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<sup>5</sup> "Frequently Asked Questions About Venture Capital," National Association of Venture Capital, available at <http://www.nvca.org/index.php?view=article&catid=41>, accessed December 15, 2013.

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<sup>7</sup> Diane Mulcahy, Bill Weeks, Harold S. Bradley, "We Have Met the Enemy and He is Us: Lessons from Twenty Years of the Kauffman Foundation's Investments in Venture Capital Funds and the Triumph of Hope over Experience," Ewing Marion Kauffman Foundation, May 2012, p.3.

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<sup>10</sup> "Turning the Corner, Global Venture Capital Insights and Trends 2013," Ernst & Young, 2013, p.12.

<sup>11</sup> Erin Griffith, "VCs on the Future of VC," PandoDaily, July 9, 2013, available at <http://pando.com/2013/07/09/vcs-on-the-future-of-vc/>, accessed December 7, 2013.

<sup>12</sup> Charlie O'Donnell, "Time for VCs to Get Their Act Together," *Business Insider*, April 1, 2013, available at <http://www.businessinsider.com/time-for-vcs-to-get-their-act-together/>, accessed December 7, 2013.

<sup>13</sup> "National Venture Capital Association Yearbook 2013," Thompson Reuters, March 2013, p.49.

<sup>14</sup> "National Venture Capital Association Yearbook 2013," Thompson Reuters, March 2013, p.49-50.

<sup>15</sup> Claire Cain Miller, "Andreessen Horowitz Grows Up," *The New York Times*, June 21, 2010, available at [http://www.nytimes.com/2010/06/21/andreessen-horowitz-grows-up/?\\_r=0](http://www.nytimes.com/2010/06/21/andreessen-horowitz-grows-up/?_r=0), accessed September 24, 2013.

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