

Twitter Thread by modest proposal



modest proposal

@modestproposal1



Good news everyone, Jay Hoag gave us the simple 5 point playbook for finding Magical Companies in consumer technology.

- 1. product offers combo of value, convenience, selection**
- 2. there's tremendous engagement**
- 3. a virtuous cycle**
- 4. tremendous execution**
- 5. kinda crazy leader**

So my comments on the consumer side. I have

generally described what we're trying to do, and this may sound generic, and obviously, the proof is in the pudding and it's easy to outline what we're looking for, but basically looking for magical companies.

I think of it as having five criteria. Some of which are hard to know ahead of time. The easy ones are, is there a unique value prop? Is this company providing a three headed combination of value, convenience, and selection. So if you go way back in time using Netflix as an example, back in the DVD days, once we rolled out the subscription offering, they had that in spades. It was great value, unlimited rentals per month. It was very convenient. Once you figured out what to queue up, what you wanted to watch, you would get sent those DVDs. You return via the mail when you had watched them, et cetera. So you didn't have to leave the comforts of your couch. And then selection. In the DVD world, Netflix literally had every DVD ever made. That's unique value prop. So as I look at new businesses, center very much in on that.

A lot of companies have some of the three or portions of the three or may have the three down the road as they build the business, but it's not often you see all three. The second is on the consumer side is tremendous engagement. And something about the product engage as consumers. And again, this may seem obvious, but if you think about it today, the average Netflix user is estimated to watch two hours per day. The average Spotify premium users over an hour a day. Gaming. Folks at Electronic Arts and others have tremendously engaged audiences. And there's lots of, obviously, business benefits from having high engagement. So that's the second. The third, and it's bantered about a lot, but is there a virtuous cycle to the business? Is there some network effect that will both allow the company to accelerate and also to then forward invest and build competitive modes to sustain that rapid growth?

The fourth, which is really hard to get at ahead of time is tremendous execution. The example I use, both companies are successful, but one extraordinarily so and one somewhat so are Facebook, which we were fortunate to be a private investor in, and Twitter. I'm going to take a little literary license here. Both companies in a sense we're addressing a similar sized opportunity. And of course, Twitter had a different approach, but both companies obviously were building engaged audiences and then monetizing it primarily through advertising. There was superior execution of Facebook, and I know Twitter started later than Facebook did, that has allowed them to grow from, I think when we invested, it was a little bit billion and a half of revenues in 2010 to 86 billion last year. Pretty staggering growth and achieve a market cap of a trillion dollars. And Twitter has been successful. I'm not quite as close to the user stats, but build a company worth tens of billions. So 15 to 20 X difference in market cap due to superior execution. As we look at new investments, it's really hard to know, but as an area where you try to get a good sense of the speed of execution, because the best companies are constantly innovating and executing at very rapid speed. And then the last, the fifth is, is this an exceptional visionary CEO who probably is a little crazy?

Are they hiring great team members? Really playing for the longterm as opposed to short-term? And in a sense, allowing those that exec team to execute like hell back to the fourth point, after almost 40 years of investing, I have lots of different truisms, but one of my favorite lines is, the line between visionary genius and batshit crazy is not always clear.

Obviously Jay Hoag on ILTB is as self recommending as it gets <https://t.co/9vAmHBHCZN>