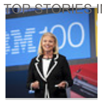

TECHNOLOGY

Andreessen: Bubble Believers 'Don't Know What They're Talking About'

Venture Capitalist Discusses the Current State of Tech Investing

By DOUGLAS MACMILLAN

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In a 2011 essay in The Wall Street Journal, venture capitalist and Internet pioneer Marc Andreessen predicted that software companies were "eating the world" by replacing old industries with new services that are smarter, faster and cheaper.

If anything, Mr. Andreessen's prophecy is unfolding ahead of schedule. The smartphone is now a portal into a taxi ride, a doctor's appointment or a date.

Startups like Airbnb Inc., TaskRabbit Inc. and RelayRides Inc. have used software apps to pioneer a new economy where consumers share their materials and services. Google Inc., GOOG +0.34% the 12th most-valuable company by market capitalization when Mr. Andreessen's essay was published, is now third on that list.

In an interview, Mr. Andreessen looks back on his predictions and made some new ones for the year ahead.

He stands by his assertion that the rise of valuable new software companies is a fundamental economic shift—rather than a bubble—and explains the multibillion-dollar valuations of Pinterest Inc., a startup his venture-capital firm Andreessen Horowitz invested in, and Snapchat, one his firm didn't.

Edited excerpts:

WSJ: What's driving the current speed of technological progress?

Mr. Andreessen: It's only really in the last two years that the smartphone has now become a mass-market phenomenon.

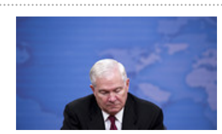
Heading into 2014, I think the number is like two billion smartphones in the world, and that number is growing really fast.

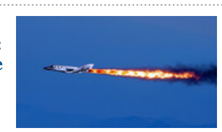
Within three years, I don't think it's going to be possible to buy a phone that's not a smartphone. The vendors are literally going to stop making these low-end feature phones, they're just going to make smartphones instead. That's what takes us to five billion.

We're just now starting to live in the world where everybody has a supercomputer in their pocket and everybody's connected. And so we're just starting to see the implications of that.

WSJ: Does that further the power of those who control the platforms— Apple AAPL +0.74% and Google?

Mr. Andreessen: On current trends, yes. Apple and Google are both in extraordinarily powerful positions because they are the two dominant platforms owners in this new world. And there's no question they are both gaining strength right now. The big question for Apple is: Can they hold market share in the high end of the market? And the question for





Google is: Can they keep Android together, or does Android fragment, especially overseas?

WSJ: There's a flood of capital going into a range of software companies. Is this sustainable?

Mr. Andreessen: In my opinion, there's nothing broad-based that's happening. There's no bubble, per se. Bubbles are a very specific phenomenon where you've got mass psychology and you've got every mom and pop investor and every cabdriver and every shoe-shine boy buying stock in whatever it is—going all the way back to the South Sea Bubble all the way through to the dot-com bubble.

There's nothing like that. We're talking about a fairly small number of companies. And then, we're talking almost entirely on the private side. It hasn't really affected the public market that much.

Andreessen's Portfolio

Winners

- **Nicira**—Cloud networking startup sold to VMWare for about $1.26 billion in 2012
- **Skype**—Microsoft's purchase of the voice-over-Internet provider netted Andreessen $153 million less than two years after their investment
- **Zulily**—Shares of the online retailer jumped 71% in their November debut

Losers

- **Fab**—The e-commerce site has laid off staff and fallen short of its revenue targets after expanding overseas too quickly
- **Kno**—Education software maker sold to Intel this year for a fraction of what venture capitalists put in
- **Zynga**—Shares of the game maker still sag more than 60% below their IPO price of $10 in November 2011

WSJ: How is this different than the dot-com bubble?

Mr. Andreessen: The costs of building an Internet company today are far lower than they were in the late '90s.

In the '90s if you wanted to build an Internet company, you needed to buy Sun servers, Cisco CSCO -0.25% networking gear, Oracle ORCL -0.26% databases, and EMC EMC +0.27% storage systems. And those companies would charge you a ton of money even just to get up and running.

The new startups today, they don't buy any of that stuff. They don't buy literally anything from any of those companies. Instead, they go on Amazon Web Services and they pay by the drink and they're paying somewhere between 100x and 1000x cheaper per unit—per unit of compute, per unit of storage, per unit of networking, per unit of software.

In retrospect, it's a miracle that anything worked in the late '90s given how limited the market was and given how expensive it was. It's a miracle that eBay EBAY +0.60% worked, it's a miracle that Amazon worked.

The devil's in the details. It's really up to each company to demonstrate that it's going to be a franchise company and demonstrate over time that it can monetize appropriately. The ones that make it work are going to be enormously valuable. This is a time of very big franchise creation. The people who say it's all like the '90s and it's all going to come crashing down just don't know what they're talking about.

WSJ: But is there enough demand out there for two or three or more players in these categories that are getting a lot of venture money?

Mr. Andreessen: Generally in tech, the markets are winner take all. Google still competes with people in search and so forth, but over time, Google is gaining share against Microsoft and against Yahoo. YHOO +1.58%

I think it's a question of: What are the categories versus industries? Are Dropbox and Box the same thing or are they different things?

One way of looking at it is it's the same thing. Another way of looking at it—which is what we believe—is they are very different. Because one is consumer-focused, the other is enterprise-focused.

Another example is: Should all the sharing-economy companies just be one company? We think the answer is no. We think there is a big winner per vertical.

WSJ: With a lot of companies getting funding across the board, inevitably, many will fail. Is failure a good thing or a bad thing in Silicon Valley?

Mr. Andreessen: I'm really schizophrenic on this. I can argue both sides of it. The Midwestern Protestant in me is very strongly on the side of failure is terrible and horrible and awful and the goal of every entrepreneur should be to not fail. This whole thing where failure is somehow good in Silicon Valley, or failure is OK, or failure is wonderful, or failure is part of the process, is just a bunch of nonsense, and is actually a destructive sort of meme because it gives people an easy excuse to give up. If you look at a lot of

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the great successes in corporate history and in technology, they required real determination and real staying power.

The other side of it that I can argue equally enthusiastically, is that an enormous cultural positive for the Valley and more broadly the U.S. is that failure does not end your career. Failure is not a mark of shame that means you are done in your field—which is true in a lot of the rest of the world. In the Valley, it means you have valuable experience. One of the things I always tell our entrepreneurs is, don't just hire people out of successful companies, because the people out of successful companies didn't learn anything. Maybe they were just along for the ride. Whereas, the people who have been through tough times tend to be much more resilient and they tend to be much more determined and they're not daunted by things being hard.

The way I try to resolve it is, I think there's a grain of truth on both sides. I think both are kind of true and then it's just a question of nuance and judgment. You really can't just give up the minute things get hard. But at the same time, not everything works. And when something doesn't work, it shouldn't end your career, it should just inform the next thing you do. And that's kind of how the Valley works.

WSJ: How do you get behind startups with no business model? With Pinterest, how do you get from zero revenue to a $3.8 billion valuation?

Mr. Andreessen: There are two categories of companies like this. You can guess which one I think Pinterest is in.

There are the ones where everybody thinks they don't know how they're going to make money but they actually know.

There's this kind of Kabuki dance that sometimes these companies put on where we're just a bunch of kids and we're just farting around and I don't know how we're going to make money. It's an act. They do it because they can. They don't let anyone else realize they have it figured out because that would just draw more competition. Facebook FB +0.51% always knew, LinkedIn always knew, and Twitter TWTR -1.95% always knew.

They knew the nature of the valuable product they were going to be able to offer and they knew people were going to pay for it. They hadn't defined it down to the degree of being ready to ship it, or they didn't have a sales force yet, so there were things that they hadn't yet done. But they knew. They had a high level of confidence and over the passage of time we discovered they were correct.

Now, there are other companies that honestly have no idea. Like, they really honestly have no idea. You need to be very cautious on these things because one of the companies that had no idea how it was going to make money when it first started was Google.

WSJ: Which type is Snapchat?

Mr. Andreessen: The bull case on Snapchat is that there's a company in China called Tencent that's worth $100 billion.

And Tencent is worth $100 billion because it takes its messaging services on a smartphone and then wraps them in a wide range of services—things like gaming and social networking and emojis, and video chat—and then charges for all these add-on services.

And it has been one of the most successful technology companies of all time and is worth literally $100 billion on the Hong Kong Stock Exchange.

Maybe that's [CEO Evan Spiegel's] plan. Maybe Evan's plan is to transplant the Tencent business model into the U.S., which nobody has actually been able to do yet.

WSJ: As software eats the world, what happens to the older, incumbent businesses being attacked by newer startups? Will they simply decay and die and go away, or will they adapt?

Mr. Andreessen: If somebody wants to go into a full defensive crouch, some people do choose to do that.

But I think more and more big companies are thinking OK, there are big opportunities here, there are new ways to reach out to customers, to ensure our customers are happy.

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