Introduction

Patrick

My guest today is my good friend Ravi Gupta. Ravi is a partner at Sequoia Capital and also the host of Glue Guys, a podcast on the Colossus Network that discusses both business and sports. I wanted to have him back on Invest Like the Best to discuss a recent essay of his that he called "AI or Die."

As someone with incredible operating and investing chops, Ravi believes we're entering an era where the constraints that historically limited small teams are dissolving, creating unprecedented opportunities for those willing to embrace change aggressively. We discussed why traditional metrics of corporate success like headcount and process adherence may become liabilities, what it means to be a world-class reactor versus a world-class predictor, and how magic per employee and organizational agility will emerge as crucial measures of value creation. Please enjoy my great conversation with Ravi Gupta.

AI or Die

Patrick

So Ravi, a couple days ago you sent me a draft of this really interesting essay that you wrote called "AI or Die," which is such an interesting framing for something that I know you've been thinking a lot about and have been thinking more and more about in a crescendoing way in the last few weeks and months. Can you just start by describing the process of arriving at this essay and what precipitated it, and its various implications?

> ### Ravi
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> Everyone sees these new model advances and they've come out so quickly that you are using the models for whatever you're using them for the day before, and it's hard to think of even what to ask them when the new ones come out. So a couple of things happened.
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> One, I'm on the board of Sierra, Brett and Clay's company, and they started describing some of the things that were able to be done in o1 Pro that were not able to be done with 4.0. And I was surprised.
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> I think that the specific example that came up was when Clay was talking about something he was doing with it, I asked him to show me how he was using it. And when he did that, he asked the model a question, which was, "Are my instructions clear? Is there anything else I can do to make it to clarify what I'd have you do?"
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> That interaction was so different than anything I'd ever thought about with a model. I never thought to ask it a question. And the model came back and said, "No, actually, in fact, can you please clarify these five or six things?" And I was pretty stunned by that interaction. That was point one.
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> Point two was a friend of mine who was at one of the model companies left to go to another one. And I said, "Hey, what happened?" And he said, "The pace of progress has changed so much in the last three months that I had to go to this one."
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> And in our business, take the Matt Kohler quote that you and I both love. Matt is a good friend of ours. Our job is not to see the future, it's to see the present very clearly. All of a sudden it felt the present was different than what I thought.

And so I just started trying to use it more myself. And I think I'm barely scratching the surface, but I was pretty stunned at what was possible from this. And I'm somebody who lives in Silicon Valley and works as a venture capitalist. It made me wonder if there were other people who are going to be as stunned as I was.

Patrick

So maybe talk about what you mean by AI or die in its most kind of intense form.

Ravi

Well, if you take that Dario quote from his essay from October, he describes what he believes powerful AI will be. And it's this idea of a country of geniuses in a data center. That's what's going to be available to anyone.

And then you take what Sam has been saying, the quote he has is, "In a decade, every person will be more capable than any person is today." And if you just take a moment literally, just read the words again or say them again in your brain, they are mind-bending.

And so the point of what do I mean by AI or die, if they're at all right, if there's something approaching right, there's going to be dramatic changes, change that is going to come to any company, to any person. If we then think about the most intense version of that if that's true, then you should be able to recreate what we have now with dramatically fewer people working on it, because there are a country of geniuses available in a data center.

And so I think the most intense version of that is envisioning a group of developers hanging out on a Friday night and sorting companies based on their market cap and their number of people and their NPS in some calculation and finding the biggest company with the most people with the lowest NPS and then competing about who can build it faster. It's just a crazy thought of what could happen.

But I don't think it's crazy if the AIs turn out to be as powerful as we think. And then the much less intense version that I think is very real is anything you have that prevents you from embracing change right now is a huge limiter. It's a huge limiter if it's a lot of people in your organization, if it's adherence to a quarterly earnings that you've committed to, if it is unwillingness to make a change, if this is changing as fast as I think it is, and I think the people that run these companies say it is, anything that reduces your agility is a massive problem.

Patrick

So since you first had these couple aha moments with your friends at those leading edge companies, what have you personally done differently to try to respect this faster-than-you-thought pace of change?

Ravi

I love the word choice to respect it. So the first thing I guess to be very honest was I talked to Avni about what are we doing to educate our kids. If this is true, my first thought was not what does it mean for businesses? It means what does it mean for our family? What does it mean for the kids? What is the right way to teach them in a world where the tools that are going to be available to them are going to be totally different?

We realize that I don't think that there's actually skills that I can teach them. There's behaviors, there's feelings, there's approaches. And so what we got to was some version of

– we have to make sure that they're ambitious, we have to make sure they're curious. We have to make sure they're resilient, adaptable, and they're high agency.

I think the reason that then dovetailed with – what has changed now? – was that that's the same thing. If you're at a company, you actually need the exact same things. And you and I have talked about this separately and I think you've added a couple to that which we should go through. Those same behaviors are going to have to exist in the company.

Specifically, what I have done personally is I try to use it more for real work. I had dinner with somebody recently, and I hope he's not listening because of the setup I'm going to give you. But it was with a company, somebody who was on the board of a company that I didn't know that much about. I was not well prepared for the dinner, and it was somebody who I wanted to make sure I had a productive conversation with.

And there was 20 minutes before I was going to go to the dinner. And I prompted the model, the latest model, the $200 a month one, which – sometimes people just don't want to do that because $200 a month is a lot of money. It is, but it's not a lot of money when you think about relative it to seeing the future. That's literally what they're offering you right now.

So I put in, "I am a sophisticated investor. (That was a very generous term for myself.) I have a dinner in 20 minutes. I am not prepared for this dinner. And I'd like to understand deeply what this company does in a way that I can understand within 10 or 15 minutes. I'd like to understand these four or five things, and I'd like to have some good ideas for this person for what they could do. And are my instructions clear? And I use Deep Research.

And he said, "No. Can you tell me these four or five things?" I told it four minutes of thinking and it came back and I read it on the way to the dinner and we had a great dinner. This person thought that I knew what I was talking about.

That is a pretty different use than "Can you summarize this email for me?" I think that the AI interaction most of us have is Apple's an amazing company, but the Apple intelligence summary of your text message is the most absurd. It's a terrible experience, right? And it's truly laughable.

It's more used for comedy than it is used for actual value right now. And that's the interaction that most of us are having with this thing versus that wow experience for me, of, oh, my gosh. I actually know a lot more about this company now. And I would have never known this in this time period. That's real work. So the biggest change is trying to have it help me with real work.

The Small Team Revolution

Patrick

I want to dig in a little bit more to that imaginary spreadsheet you envisioned earlier, which you said market cap, number of employees, NPS. If your only thought exercise was trying to find a single target for a company to go you could have an activist help you and have a hostile takeover of the company or something and install yourself as the CEO with the goal of maximum value creation or something using this new tooling.

Talk me through how you would process that search trying to find that single company that could be most positively impacted if they embrace this back to AI or die and maybe will die if

whoever's running it doesn't embrace this rapid pace of change.

Ravi

That is a good question and a very hard question. I think that when we say the AI is much better than we think, I think practically speaking it means that it is way better. And this is a stolen insight from a friend of mine, but it is better at figuring out hard to figure out patterns than we would give it credit for.

Do you see what I'm saying? It finds patterns in ways that wouldn't be obvious and it finds them ridiculously quickly. So you can be more ambitious in where there might be a pattern that's not obvious, its ability to discern that is different.

So maybe an example would be if you give it some framework, it can give you good acquisition ideas for the company because it can identify ways to optimize for the question you have. I want to improve my distribution and I'm in this space. It will find companies that are in a similar space that have tons of customers that might be a nice tuck in or a transformational acquisition.

So I guess one thing would be where can the AI help me being more ambitious about thinking about what it could do? And so maybe practically speaking, Patrick, I wrote this in the blog, I think going through role by role and figuring out what does that job actually do inside my company for a customer and if I replaced it with a really well prompted AI, could it do it?

And I think that you have companies that are vertical agent oriented companies all over the place right now. You have it in customer service, you have it in SDRs, you have it in marketing. There's companies that are popping up frankly on the marketing side right now, going through each one and saying, okay, which one of those could be replaced or augmented by AI today?

And then this is a really important one. What about in six months? Paul Graham had this tweet that you and I both saw which was the people that are really bleeding edge in AI, you should be building things that don't quite work right now with the models and are way too expensive. Because what do you know? You know that the model is going to get much better in the next three or six months and you know it's going to get way cheaper at a hundredth of the price or whatever.

So I think maybe role by role. Can I do it now? Can I do it in six months? That's probably one exercise that I try to go through for disruptibility of my company with somebody else.

The second thing that I'd probably be thinking about is ability to be the AI strategy for another company. Let's assume most companies are not going to be able to do this themselves. Can I be their answer to be the foot in the future? That to me is an absolutely gold insight.

If your company has that possibility, if you can promise your customers the world is changing really quickly, we are your way to deal with that. That is incredibly valuable I think because all of a sudden you have infinite ability to move out of one spot into more because the AI will continue to be better and better.

And then I think the third thing, and this is not exactly answering your question, but I do think this is a big deal related to companies that are going to struggle. I think anything that reduces your agility in any way, anything that prevents you from adapting or changing, is a hundred x more painful than it's ever been before.

And this is where I think all of us will start to think of companies. Oh my gosh, everything is a sub cost. The example that comes to mind here is Satya Nadella in Q4 2022. Our mutual friend Modest Proposal has talked about this.

If you go back and look at the earnings report, Satya Nadella in Q4 2022 is talking about the Enterprise Metaverse. Thankfully that is discussed on the Microsoft earnings call two years ago. And now look at what's discussed on the Microsoft earnings call.

It's we're going to spend $100 billion on CapEx. We are doing everything related. He doesn't care what he said on that earnings call. All he cares is what is happening going forward.

I think that so many companies are held hostage by what they said to their team or what they said on an earnings call or what they said is going to happen. And this willingness or this desire to be consistent with their past selves is preventing them embracing the biggest technological change that we've probably seen in our lifetimes.

Patrick

Can you riff a little bit on how all of this change and this frame of thinking makes you think about individual employees inside of an organization and what they actually cost? The simple thing would be they cost $150,000 of salary and benefits or something. But I think you're thinking about this in some new ways, which is beyond just hard, direct costs and is more holistic from the company's perspective related to the customer. Talk about the cost of an employee and how that's changing.

Ravi

So you and I have been talking about how there's this meme that's sort of starting to arise of small companies.

Patrick

Small team meme.

Ravi

Small team meme. Yeah. Small team meme. And I think that Dharmesh from HubSpot talked about this of SMB doesn't stand for small and medium businesses anymore. It stands for small and mighty businesses.

So if you start with this premise, maybe small is even better than we thought. Maybe small is even more of an advantage than we thought. The question is why?

And I think that there's a lot of hidden costs to having a lot of people we've all talked about in the past. Well, coordinating amongst them. Okay, that seems a hidden cost. And then there's all the other things that we've talked about in the past.

If you have a lot of people, you have spent a lot of time interviewing and hiring. You also spend a lot of time putting people on pips. You spend a lot of time discussing all those very specific things.

I think the bigger picture. Zoom out. That I believe is sort of how much of your time is spent dealing with employees in a way that doesn't actually help your customer. What percentage of your day, if you're a CEO or a founder or a leader, is spent on things that your customer cares about? And I think that number is vanishingly and astonishingly small for a lot of people.

This is why I think sometimes you'll hear CEOs be "I don't even my job," because they don't actually spend that much time doing stuff for the customers. And I do think that exponentially goes up the more people you have, or it has the risk of exponentially going up the more people you have.

I have a friend who runs an organization that's 400 people. And he was telling me that he had to let go of 20 people last year. And he's "it's taken up the most crazy amount of time of setting up, how he does the layoff, figuring out how to talk to each of those people."

What is the severance package for each of those people? How does he talk to the people that stay? How does he describe to them? What's going on and why it's going to be durable and why it's okay. There's just all these hidden costs that go in and they all prevent percentage of time you are focused on delivering a resolution to your customer.

And if we envision, there's this incredible advantage right now that's pronounced and even more pronounced than it's probably ever been of just people that spend time thinking about what their customer wants and how to deliver it to them in the best, fastest, cheapest way. And I think that moments that you get to free up your brain to think about that are the moments that are going to deliver value for your company.

So maybe going back to your question of how would I think about the biggest value creation lever for a company if you were dropped in as the leader? It'd be "what percentage of time does the senior leadership team think about how to deliver value to the customer in the best, fastest and cheapest way? In 6 months, 12 months, 18 months, 24 months?" The lower that percentage is, the more that there's opportunity for that. There's a massive hidden cost right now.

Patrick

Are there companies that you know well enough that you would say are exemplars of doing a great job of the senior team spending lots of their time on what's good for the customer?

Ravi

I'll give you a couple of examples that come to mind. I'll give you one that's inside of our portfolio and one that I work with closely and one that I don't.

Bill McDermott famously, when he took over as CEO of ServiceNow, talked about the number of customer meetings he had in his first 90 days. And it was some number that effectively equated to 10 per day, 10 customer meetings per day, including weekends. I think he said he met a thousand customers in the first quarter.

That is baffling. ServiceNow is a huge company. He has all these things that he has to do. If what he's saying is true, which I presume it is, because he's Bill McDermott and he's an amazing CEO, that would make me pretty darn bullish about ServiceNow realizing what their customers want and how to go build it for him. Because the CEO is so incredibly externally focused.

I love this idea. And every company that I am lucky enough to talk to, I tell them, "Please be externally focused." 1. It's so much more fun, but it's also so much more impactful to go and solve customer problems than it is to deal with internal nonsense. So that's one.

And then I do think Sierra is doing a really good job on this dimension too. I think that team is focused on what do customers want, how can we deliver it to them, and how can we embrace AI to the maximum ability. And I think that means don't do one-off things with AI

help you with it.

Anytime you figure something out that can be helped with AI, do it. Tell the whole team. And I think that practically speaking, Patrick, I think that it's almost easier for us to think about the companies that probably aren't doing this and they probably make us have a little bit of a pit in our stomach of "oh gosh, how's that going to work? What are they going to do then? Are they going to go and change?"

And I actually think right now being private is a huge advantage is a general matter because you really have to be courageous to not let something that you've said in the past to a public market investor. Not let that stop you from doing things.

You know how big of a fan I am of Fiji? Fiji will do whatever is right for Instacart. It doesn't matter if they're private or public. But there's a lot of people who feel really obligated to their past self and not to do the right thing for the long term.

I also think it's not a coincidence that the people that are going to do this well are people that understand customer problems, but then they also understand the technology of what it can do. I think the anecdotal experience of AI not changing your life is really dangerous right now because if you're "meh, if you want to be contrarian right now and be the models, they're not that great."

That's fun to say probably at a cocktail party and it fits with people's anecdotal experiences. But that is dangerous as hell. Go sit with a bunch of people devoting their lives to this and have them tell you about the future. I really believe that that is incredibly valuable.

Patrick

What do you make of this inversion of that old trope that the race was between startups getting distribution before the incumbents got innovation? When back to this small team meme, everyone's posting about Cursor and companies it that are growing 0 to 100 million of revenue with 10 to 30 people in a year. And actually what's interesting is that, I mean you could debate how much better Cursor is than whatever a big company's Copilot or something, but they're getting distribution way faster than we've ever seen before. What do you make of that? And what does that tell us about how the future might unfold?

Ravi

I actually think that that trope that you mentioned was actually pretty brilliant for a very long time. I suspect it still applies. Can a startup build distribution faster than a big company can build product or build innovation? I actually think it's still the right question.

I think the thing that's probably changed is the speed at which you can build distribution with a great product has probably gone up. The willingness for somebody to adopt something that feels magic, maybe that's the point. I think that AI can make your product feel magic.

And I think people are really willing to adopt things that feel magic. So the speed that a really well executing startup that produces magic can get distribution is probably higher than it's ever been would be my guess. I'm not enough of a student of this to know that for sure, but I do think they are producing magic.

The thing that is actually interesting though, if you're a startup just to make it real, is if somebody has distribution already and they thoughtfully deploy AI and they actually go and disrupt themselves and they actually put it into their product, they're even harder to

compete with right now.

I think that Microsoft is way harder to compete with now than it's ever been before because they have this ridiculous distribution, insane distribution and they are really pushing to get AI into their products in a way that feels magic. I think that no one doubts that Satya Nadella gets this. Nobody wonders about whether they get it.

The only thing that limits their speed is their organizational size. It's not intestinal fortitude from Satya. I think there are other big companies that you really worry that they actually are not gonna be able to get the product in because they're gonna let organizational stuff get in their way.

I actually think it's still the same question. I just think that if you're a big company, you better be awfully paranoid about a startup because their ability to build distribution is way faster than it's ever been. And I think that if you're a startup, you better be really clear about who you're going up against. There is a massive difference in speed amongst the big companies at how quickly they are leveraging their distribution advantage.

Becoming AI-Native

Patrick

It's becoming popular to say, be an AI-first or AI-native company for startups. Kind of obvious what that means. What does that mean for a 10,000 person public company that sells software or provides a service or is a white-collar-ish company or something? What would you recommend those CEOs literally do not a mindset, first hundred day presidential plan, we're going to become AI-native. What does that mean?

Ravi

You and I have talked about in the past, this idea of enthusiastically rehiring somebody is the standard. If you could do it again, would you hire this person to do this job?

I think you have to enthusiastically re-underwrite your business. And what do I mean by that specifically? You need to go and say what is the purpose of your company for these customers? What is the best, fastest and cheapest way for us to go and deliver that and is it what we're doing now or not?

And you can hold nothing sacred. So what do I mean specifically? Let's take pricing. Today a lot of companies have seat-based pricing models. I don't believe that that will be the future of the way that people buy software.

I think that there is something, we've heard this from different people but maybe they're going to pay for the job to be done. Maybe they're just going to say I want this piece of work done and I want to pay just for that piece of work done. I don't want to pay for each person that uses your software. I want to pay only when something gets done.

Well that is a massive and dramatic shift if you're a big company to move away from the pricing model that got you there. But understanding that that might be the future of your pricing, that is a big realization that has a bunch of knock-on effects as to what do you go do then?

And maybe it means you'll have 60% less revenue now if you move to that. But in the future you have the potential for 5x more revenue because you have a bigger customer base that

you can go after or you can do more jobs for somebody. But I think one thing with you can hold nothing dear.

That's one thing which is pricing model has to be evaluated all under this idea of enthusiastically re-underwrite the way that you're delivering the purpose of your company to its customers. That's one, two. I think that you do have to go role by role and figure out what is this AI superpower version of each of these roles.

Is it that it's replaced? Is it that it's augmented? And I think that that is a big deal of the specific role by role conversation. And I know people are "well we have 5,000 people. I don't want to do that." I'm "can you tell me what's more important than that? What is more important than figuring out whether you have the right people doing the right jobs for your company?"

So that's that. I think the third thing, Patrick, is this idea of what percentage of our time do we spend thinking about our customers? I really think that's valuable. This thing that Shopify does. Shopify will just kill meetings, end recurring meetings randomly.

I think doing the calendar audit of what percentage of our time as a company, as a leadership team, first as the CEO, then as a leadership team, then as the company is spent on things that move the needle for our customer. What percentage of time do our engineers spend coding? All these things I would do, and it's easy for me to say because I don't have the responsibility of doing this.

You ask, what would you suggest to somebody? It would be that. And then I think the last one, which is maybe the most optimistic, is what have we dreamed about providing for our customers? That was impossible before. And let's all use this idea of what is barely possible now and too expensive.

Oh, my God, that's going to be possible in six or 12 months. Let's go build that. One of the things that you and I have been talking about separately is how much should we care about margins right now? Well, it actually means you should care a lot about margins in certain topics and not a lot about other topics.

If something's an AI-first product, you probably shouldn't care that much about the margins of it because it's going to get so much cheaper to deliver that. Whereas if something's not an AI-first product, you care a lot about the margins because that is the durable future.

Those are a few things that I think I would do and I would suggest to people to do. And I also think anything that prevents me from being agile, I know I keep on coming back to this. Anything that prevents me from making a change, I would try to write down and figure out how I eliminate.

And maybe that means you don't provide guidance anymore. Maybe it means that you tell people there's going to be a negative and then there's long term going to be a positive. Maybe it means that you tell your team that we're in the midst of a big change and some things are not going to be as predictable.

You have to be able to make the changes you need in the company. And it's hard to predict those changes right now. And so I think you need to give yourself the ability to be very, very, very nimble.

Patrick

What would you say to a leader that said, "Okay, I get it. This is cool. I love using ChatGPT on the weekends. I get why this is interesting, but I'm scared that I'm going to pivot my entire battleship of a company in this new direction. And it's a wild goose chase. It takes longer or things change too much and it doesn't actually work in production use cases. And I'm going to waste my next two years chasing this thing I might have chased the metaverse. There's no there there. And I show up and it's just it was a waste of my time and I screwed up the company as a result. And I'm willing to eat years to wait and see where these things get and where the equilibrium settles out and whatever that." Geoffrey Moore, third cat, not early adopter, not early majority the next one. "I'll be one of those and I'll be fine."

Ravi

It is so easy to say when you're not in the seat. I want to recognize that. My response to that is you can't outsource your conviction, which means don't do it because somebody tells you.

I do think before you come to that conclusion, you owe it to yourself to spend weeks or a month really trying to convince yourself that you're wrong. Because I think this is the point that I feel most strongly about. Go figure it out for yourself as to what's actually happening with a lens of trying to break your prior thought on it.

It's convenient to think that you can just gradually get into this. It is really convenient to think, I'll just figure it out later and I'll do it in a gradual way because that's just way easier for us to deal with as people. And I think anytime you have a convenient belief on something important, you should really examine it.

And I think in this case, examine that convenient belief. And if you really, after a month of being super open-minded and really trying to break it, you come up with that, great, do it. But do it affirmatively. Don't do it because it's the convenient path that allows you to not have to change very much.

You and I are both NBA fans. It is really hard for an NBA team to be really good for a long time and never bottom out before they get to be good again. It's really hard to just keep it going and reloading and reloading and reloading. It usually has a really painful period afterwards.

I'm a Bulls fan. Look at the Bulls, it's very convenient to think, maybe I'll just be able to do it both ways. I'll just be able to stay good and then I'll just figure it out and I'll get the second track and we'll make it work. But I would affirmatively really try to figure it out by trying to break it in your own mind.

Patrick

One of my favorite points that you wrote about and that you and I have talked about is whether or not you're treating these things you would a genius that just joined your team that has the capabilities, forget six months from now, just the capabilities that it has today. If that person showed up at your office and you're paying them, how would you treat them? Are you treating these models and their capabilities in the same way? I love that thought experiment. Can you flesh that out?

Ravi

Yeah. I think we have a standard for these models that is so insane right now, which is effectively if I just ask you to do something and I'm not clear on what I'm asking you, and you don't know anything about my company, do you? Just make it happen if you don't get it

the first time perfectly.

I base them math. This thing doesn't work. The thought experiment you and I are talking about is what if you just knew the person was brilliant and you knew that they would work 24 hours a day for you and you just knew that they had this crazy potential.

The first time they messed up, you wouldn't just be "Oh, they suck." You'd be "I gotta do something differently in order to get the most out of this person." That would just totally be the reaction.

And instead I think we are treating the models they're someone's nephew that we had to hire. It's "No, I gave him the chance and I knew it, he sucked." The mental model of "No, this is the person that you fought crazy to hire and you were so lucky to get and you didn't think they were going to come and the first project wasn't perfect."

It's "No, I'm going to make this work." That mental model is so different and so much better. And frankly, we'll have so much positivity for your company. I really that mental model.

And if something doesn't work right with the model, it's your fault, not the model's fault. It's not a question of the model's capability. It's a question of your prompting and your understanding and your ability to give it context.

Context is going to grow even more important here. And I think most of what's missing from the models in order to be magic for you is context. Part of the reason I think that Cursor and Cognition, some of these other companies have done so well is they actually have shared context of the code base.

And then they get better and better with the more work that they do alongside of you. I think what's missing a lot of times with what people try to get out of the model is giving it enough context for it to be great. The relationship idea here would be the relationship most of us have the most shared context in is the one with our spouse.

With your spouse, you can flicker your eyes at a party and they know it's time to go. You just have so much shared context that the smallest movement of the way your eyes look, the length of a blink, all of a sudden they know everything. Avni can perfectly tell what I will think about something without me even being there.

She can perfectly imagine what I will react to something with. That's because of a lot of shared context. And I think my point on envisioning these models as a collaborator and now take that to work. There are people you've worked with for a long time where they just know what you're going to want.

These models, I think, can and will be able to do that as collaborators, but we have to give them the context. I think the only way to really lead through this is to lead through optimism. The only thing I didn't about the title of this recent blog, it sounds negative, "AI or Die."

And I'm kind of "remember, yes, if you don't embrace this, your company has a real risk of fading into irrelevance. But you can live in a way that you never thought possible. You can make magic. You are here to make magic for these customers and you actually now have the tools to do it."

That's the part that I really believe has changed in my thinking on it, which is if you approach this with optimism. Dude, what a time to be alive. What a time to be alive.

World-Class Reactors

Patrick

I love Tyler Cowen's idea that most of his writing now is for AIs, not for humans, that he is generating context that will make them better for him in the future. I hope that there's more and more ways that make it easy to do that. I think lots of people that are optimistic about this would very quickly opt into something that generated more context in an easy way, low friction way. For these things to work with. And I love that idea. Think about context and how much you have already and how much you're building as part of preparing to use these things really well. I also really your idea of the difference between a world-class predictor and a world-class reactor. Can you talk about that new dichotomy?

Ravi

It's such a perfect question for me because it gets to merge together things that I love that may not seem they have anything to do with each other. But the first person I heard say that was Coach K at Duke. He said, "I am not a world-class predictor, but I am a world-class reactor."

And he was referring to it as when college basketball changed from people that stay for four years to people that play for one and then go to the NBA. He was "I couldn't have predicted that that's the way the rules would go. I didn't know. But you know what? Once that was the game on the field, I played it extremely well."

That actually was very helpful for me, Patrick, along with Kohler's quote, because it's very intimidating to think about predicting the future. There are really smart people in Silicon Valley. There are really smart people all over the world. I don't know how to predict the future.

I do not have the IQ points for that. There are people that are much brighter than me who can do that. I think the thing that I do have in my control is the ability to respond quickly to new information. I can control that.

I can control being open-minded to seeing new information and then reacting quickly. I can control being averse to change. That is something that, it feels empowering to me and it's something that's in my hands and it's in the team's hands too.

I can help the team be "Guys, let's embrace this change, let's embrace this reality and let's go react to it." I think right now the world is totally awesome for people that can be world-class reactors rather than world-class predictors.

If you look at the people that created these labs, they were world-class predictors. That was an amazing insight, however many years ago of look at what the scaling laws are going to do. Look at these exponentials.

And they themselves, funny enough, are sort of humble about it. They're "It wasn't that hard. If you just believe that the scaling laws continue, you could bet that this was going to happen." But it was hard looking at what a model can do today and being that's going to be cheaper in the future.

That's not being a world-class predictor, that's just looking at the facts. What is hard is choosing optimism to go and react to that. But it's totally within our control.

It's hard the way going to the gym is hard. It's not hard the way creating a new

mathematical theorem is hard. It takes discipline and it takes fortitude and it takes a choice. But I love those kinds of things because those are in our control and they don't require a new brain, they require more discipline. That's something all of us can do.

Patrick

What do you think you would have done if you zoom back, you pick the moment to the most intense operational trenches that you were in at Instacart. If you had this set of tools back then, what do you think that would have been? How would you have used them?

Ravi

If we take our logic of work from the customer backwards, one thing I think that we were good at at Instacart – and what Instacart still good at is percentage of time they spend thinking about the customer.

So I don't think there's a huge optimization on that. I do think that figuring out the most abstract thing of what does a customer want? A customer wants to save the trip to the store, they don't want to go, and they want to be able to be at home when they get it.

So when I was thinking to your point, having these tools, the better, faster, cheaper version, I would be trying to make the order use as much context as I could to make their ordering process be as fast as possible and to make sure that their order is delivered as accurately as possible. True, main thing things.

And when I say make the order as fast as possible, I would be trying to do stuff where their last grocery order is something that I can ingest in some way, even if it wasn't on Instacart. And so therefore I can as quickly as possible get them through to where they can check out. So that's one.

And then on the accurately as possible, I'd be trying to be better at figuring out what's in the store right now so that I never show them something that they're not going to get. And then on the delivery side of it, I am not technical enough to tell you the optimal batching strategy that would be used using an LLM.

But whatever I could do to cut off minutes off that delivery, I'd be trying to figure out what is the AI way of doing that. And then maybe the other thing I'd be trying to do is is there something we can do over the phone that's now not economic today, that will be economic in the future.

For people that don't want to do it online but want to just call older people maybe aren't as familiar with the app. What can I do to make it where it feels magic for them? Of "I want these groceries." Okay, cool. Then they show up.

What you're saying though has in a very embedded thing that's very real, which is the more your product is physical, the more the bottleneck for using the AI is the physical world rather than the software world. And I do think it will be slower as there are constraints that are physical in nature.

The AI is not fixing traffic today. It's not making a human being run faster through the store. I think figuring out whether your constraints are physical or whether they're software related digital. I think the more digital-only you are, the faster this will come and create magic.

It's sort of this. Either you're going to create magic or someone else is going to create

magic with a lot fewer people than you. And the customer is going to expect magic.

There's Bezos' thing of customers are divinely discontented. They are just going to expect we already do this. We are going to expect magic from every experience and either you're going to deliver it or someone else is going to deliver it. But that's the new standard.

Patrick

We've talked a lot about the role of status before in all things. Apply your ideas about status and our status-seeking nature and behavior to this new world.

Ravi

This has been observed in the past, but I think sometimes there is historical status in business to the size of the team that you manage sometimes still today, how many people do you have? Is a question that is asked to a startup founder as some indication of progress or the scale of your company.

How much money have you raised? How many people do you have? I think if you take this idea that you talked about the small team meme or Dharmesh's idea of small and mighty businesses, it seems possible that the new status is to having a small team.

The ratio of magic to people. And I think magic, sure it can be measured in revenue if you want to use a very blunt instrument. But maybe this idea of magic per employee implied being "Oh my God, you did that with 10 people." That kind of thing.

Patrick

Can't you feel that already? That feels that shift has happened already.

Ravi

I think so. And I think that if it's happening, that's great, and it's not because that means people will lose their jobs. That's not the point. The point is that each person will deliver more magic.

They might leave a bigger thing and start a smaller thing, or join a smaller thing and have more impact, have more purpose. Nobody likes being a cog in the wheel. Nobody likes feeling if they left, nothing would change.

And I think that the more we can get to people getting more out of their potential, that would be fricking awesome. It does seem it's starting to go that way, and I think that is an awesome thing. Small teams feeling they can do anything.

Oh, man, there's nothing that stops us from doing that. I think that would be an awesome thing for the ecosystem. And frankly, I think that this is conflating two things.

But most companies are probably way too big relative to what they need to be public companies. There's no way that most of these companies will run efficiently. Right now, even without AI, you have this thing that these companies are bloated relative to what they should be.

I think now you factor in AI, you actually have a real reason to change that and to make yourself lean and customer oriented and seeking of magic. But I do think that this idea of the new status might be a small team. I think that's very possible.

Patrick

How are you changing your investing as a result of all this? Whether that's the way you look for companies, whether that's the way you underwrite a company, whether that's attributes of a founder that are changing. Some of these things are the small team meme companies. If you look at the price of the equity, the valuations that they've raised at is. It's high, nominally, they're growing insanely fast. It's hard to know what they should be priced at. Are you changing your valuation expectations? What are all the ways in which you think you're actually approaching things differently than you did two years ago or something?

Ravi

One of my favorite concepts that I've heard. I don't know who the first person was to say this. The first person I heard it from was Pat Grady, my partner, which was: We invest in slope, not intercept.

I guess if I really take that as the logic, I think that's still very true. I think the thing that is possible is that for the best companies, the slope can be way different and the slope can be way steeper.

And I think if you take that to its extreme, that means that for the best things, sure, you should be willing to pay more. What I think it really puts a premium on though is be earlier into those companies, figure out what those things are going to be.

And I think that what that then comes back to is okay, what are the attributes of the people who are building them? And I think that comes back to some of the stuff that you've talked about and we've talked about. But I mentioned ambition, I mentioned curiosity, I mentioned resilience, I mentioned adaptability, you mentioned imagination in there.

I think that's a hugely important word for thinking about this. So figuring out people that are close to what this can do, optimistic about what it can do, have some imagination and then are also adaptable as hell because it keeps changing. When it changes, the only thing that you keep dear is the obligation to deliver magic to the customer and everything else can change.

Probably the bigger thing I would add to my list, Patrick, is in the past. I think resilience, grit, those are things that have always been there for any founder that you really want. I think the thing that I do believe is newly important.

It's always been important. But more important for me is the agility, adaptability, it's the world-class reactor point. It is the willingness to change on a dime with new information and the desire to go and figure out that new information and to never hold a convenient belief and to examine it.

That's probably new. And that combined with more slope for the best ones. I think that what's going to happen, the best companies are going to be worth more and the mediocre ones are going to be worth less. I just think the gap is going to widen and that is exciting and intimidating because you better get it right.

Patrick

You get to sit literally at ground zero of the community of people that are investing in these companies. Probably could be well argued that any company raising is going to Sequoia first or amongst a handful of firms that they're going to first and would love to take their capital if they could. You get this complete tip of the spear view into this world. If the class of investor in

Silicon Valley draw a radius around your office is wise to this, does that mean that maybe the better way to make money as an investor is to be a private equity investor in New York that just appreciates this more than your peers do who aren't in the center of things. They don't watch Cursor happening.

Ravi

I don't think it's better if you believe this is true. I think there's multiple ways to express it. So maybe a few different ways.

One, I think if you are an investor in early-stage companies and you pick the right founders, building the right things, I think the upside is better than it's ever been. That I think is an amazing place to sit and it's about picking the right people and being lucky enough to have them pick you.

So that I think is still an incredible privilege and lucky place to sit. I genuinely believe that. I think that if you are someone who doesn't sit here, there's different ways that are really good to make money.

Figure out the public companies that are actually going to embrace this. I think that Mark Casey at Capital Group tells this great story from a long time ago of how during the beginning of the Internet era, he was really impressed with how Home Depot was thinking about this.

And his example was "We went through item by item that we sell and we figured out the price of the item relative to the cost of the shipping. And we specifically went through and we are tracking that over time. But the ones that are most relevant for Internet sales are the ones where this ratio makes sense for a customer."

"And we will continue to update our opinions as we figure out. Shipping costs go down and we might choose different products if customers want to buy it that way." I thought that suggested they were ready for a world where people were going to shop differently than they were in retail. And I suspect Mark did really well on an investment in that company a long time ago.

By the way, one of my favorite episodes, of course, was with Ken Langone. It was amazing. And the Frank Blake one too. But anyways, figuring out what public companies are going to embrace this, what kinds of people are going to embrace this big deal.

And then I think on the private equity side, my instinct is encouraging those CEOs to get closer to what this can do and having that come back and impact their business. The reason I laugh, I was laughing a little bit when you asked because the shared delusion of the power we're using AI slides in a board deck that everyone sees as the board member and produces as an operator is probably one of the funnier things out there right now, which is some 20 to 30% reduction in some sliver of your business to be "Hey, board, don't worry, we're using AI."

And the board's "Okay, cool, glad you're using AI." Nobody really thinks that's enough. But everyone's doing it for each other.

I would say that one way to, I think, make money is the more that you're not doing that, the more that the companies you work with are either "Hey, we've looked at it, it doesn't work for us, here's why." Or "This is a huge deal for us."

Leadership in the AI Era

Patrick

What should board members do? This seems actually potentially a really big problem. If you are a public company, well-paid board member, maybe on some prestigious company, a lot of these roles are not hyperactive in influencing the business and they're sort of governance bodies that sometimes don't do much. What is the risk and opportunity set right now for board members of these companies?

Ravi

I'm a feel person on a lot of stuff. If you think about the only real job of a board beyond some very highly legal corporate governance stuff, it's do you have the right CEO?

And if you're on a board right now and you just see how you feel at each company you're on the board of, do you have the right CEO? You feel amazing right now. If you have the right CEO.

Truly, this is a place where I feel very lucky, which is if you have the right CEO, you're "Okay, cool, they're going to ride this wave. They're going to figure this out, they're going to go embrace this."

If you're a public company board member and you don't have that feeling right now, I think you got to examine why do you not have that feeling and what are you going to do about it? And ideally what you do is that person is somebody who actually does want to embrace this but is nervous about something board related and what you want to do then is appease their fears of "No, we want you to go and play, we want you to play free. We want you to go figure this out."

I think that if you don't have somebody who wants to embrace this not because of board fear, but because of their capabilities or because they don't want to play in this next chapter of the game, you got to figure that out. I definitely think as a board member, remembering that you don't get to help in a lot of ways on a public company board, but the one or two ways is really asking a good question every once in a while that makes a big difference.

This is a good time to ask one of those questions and see how you feel. In a world of accelerating change, this is something Doug Leone would always say. He would talk about the accelerating change.

I will add the second part. In a world of accelerating change, how do you feel about the person leading your business? You probably either feel amazing or you feel nervous?

Patrick

Are there any other conversations as you've processed this change that most stand out as interesting, notable? What other conversations have you had that most impacted you in the last, say, three months?

Ravi

There's been a bunch. Maybe I'll describe it more as the spirit of the conversation. This is probably the thing that I really hope comes through the most.

The conversations that have been the most impactful to me all have this element of insane

humility in them, which is, "Wow, there is a lot happening. I don't totally understand it. I need to go and figure out more." All of them, they're not assertions as much as they are curiosity.

They're so much of "Oh, man, there is a lot going on. I got to get closer to the metal. I got to do more truth seeking." The conversations that have been the most interesting are all that. They are people that are really trying to listen.

There are people that are really trying to get closer. And they are all people that are sort of confused is the right word. But certainly, "Man, there is a lot going on right now."

And that humility is probably the thing that I'm most attracted to in a conversation right now about these topics, which is, here's what I know. Cool. Now, I just want to figure out a bunch of stuff.

That's why I come back to don't outsource your conviction. Don't do something because I think I believe something. Do something because you believe it, but go try to figure it out.

I think that the people that I respect the most, I heard one time that the Collisons, I don't remember who said this, but they said they listen with predatory curiosity. Think about that language. I really need to know what you're saying and why you're saying it.

I think right now, people that are going to do great things are really willing to change and very much, very curious, very humble.

Patrick

I love the story Shane Battier told you about his career training when he was young and this idea of the ghost. Can you relay that? Because I do think it's, as an analogy, an interesting way to think about what's happening here.

Ravi

Shane Battier, former professional basketball player and a dear friend. He's very different than most people in that when he was growing up, he sort of knew he wanted to be an NBA player and was working accordingly to do that from very young age.

A lot of kids say that, but they're not serious about it. I think Shane describes himself as "I was a professional basketball player from the time I was 10 years old, I went and did these things. I was working, I was working with a goal in mind."

So he tells this story of there was a poster in his room and the poster in his room had basically "Somewhere, somebody is out there working while you're not. Somebody somewhere is out there practicing while you're not." And Shane would talk about how that haunted him.

There was this ghost that was out there and it would make him work harder because it's "Gosh, if I take a break, there's somebody out there who's doing it." So he tells this story and of course it ends well because he plays in the NBA and he ends up being amazing and he has this 13-year career and it's the value of hard work.

But the thing that's so interesting is Shane met the ghost when he played in the NBA. Kobe Bryant was that ghost. Kobe Bryant was working all the time.

Kobe Bryant was born a month after Shane. It's crazy. Grew up in Italy. He wasn't around the corner in Michigan. There literally was someone on the other side of the world working all

the time.

And then he comes face to face with this guy and he was out of this world good. And that was how Shane had to ultimately measure himself. As we think about this moment in what's happening, there is someone out there working right now to produce the magic that you promise to your customers.

There is someone out there working on it and they are working on it a lot. You're going to come face to face with them because your customer is going to decide at some point do they want to work with you or do they want to work with them.

You got to approach that with joy. You got to approach "I'm going to come face to face, I'm going to go earn the right to play against this person and I'm going to be amazing and I'm going to go and take this opportunity because I'm given this chance."

But that reminded me so much of this moment. For a CEO or a leader or anything, the ghost is out there and you get a chance to play against them. But you gotta embrace it and you gotta go do it because the ghost is good.

Choose Optimism

Patrick

I think it's helpful to think about what's happening from both directions, from both the lens of opportunity and the lens of risk. And if you think about the title of your post, "AI or Die," I think one represents opportunity, the other represents risk. Even the story about Shane. Two sides of an interesting coin. Maybe in closing talk about the optimistic side of this.

I know that this is your primary takeaway, that this is a tremendous opportunity for the right kind of people. And then it will lead to lots of fascinating things and products and companies and careers. Maybe just try to put a bow on this for us. You've thought about this a lot. Now you're talking to these founders every day. You're working with the investors that get this the most. What's your summary of this entire exploration?

Ravi

The post starts with this quote from Ayrton Senna, which is that this is a moment where you can actually pass a bunch of cars in front of you. And I think the reason that that creates the optimism for me is you are only limited at this moment by the scale of your ambition.

This is something Roelof asks a lot of founders, but "What is the scale of your ambition?" This moment you can go and pass 15 cars in front of you and remember, you get to decide what race you're in.

So if your company's worth $10 billion, this is a chance for you to be worth a hundred billion dollars. If your company's worth $3 trillion, it's a chance for you to be worth $30 trillion. And if your company's just getting started, you have a chance to beat people that you never thought you'd have a chance to beat.

You get to choose the race you're in. So the reason that I think there's such an incredible optimistic moment here is there's going to be a bunch of change. None of us want to live in stasis. None of us want to be stuck where we are.

All of us want to have upward movement that comes from doing something great and

earning it. This is a moment where if you earn it, if you are willing to go and learn this stuff and go and just be committed to being excellent, the world is available to you in a way that it's never been before.

You don't even need to hire a lot of people. Think about all the constraints that existed before. If it's true that a 20-person company can do something that a 20-person company can never do before. It's so much easier to find 20 awesome people than it is to run a 10,000-person org that's so far away you can do it faster.

The thing for me is for high agency, ambitious people, you've been given tools to go enter a race you never knew possible and to fucking win it. That is so awesome. That is what I hope people get.

It's not yeah, sure, if you choose stasis, yeah, you might go into irrelevance. But if you choose optimism and you choose forward motion and you choose embracing this, there is no limit to what you can go and do. And that is the "What a time to be alive" thinking that is the thing that makes you excited about your kids.

Oh my gosh. Go back to what Sam said. Every person in a decade will be more capable than every person now. I mean, that's awesome. Now let's go get it.

Patrick

Our mutual friend Sam Teller, one of my favorite people, has this line that always has stuck with me, which is if you just see excellence in people at the highest level, it's a huge competitive advantage because you just have this bar that you can walk around with and compare things to and make better decisions and work with better people. And it's all about having seen the highest level of excellence that you can. I feel my takeaway from your post is that actually we've democratized this. We've all had a ChatGPT "aha moment" experience.

Or a Midjourney experience. And the imperative that I take from your post is we actually should all not rest until we've created one of those in our business, we should have a moment that wows us in our own product in the same way we've been wowed by some of these incredible original products. And until then, we shouldn't rest and then we should keep going. And I just think your writing is such a cool call to action for an exciting wave of the market in the market economy and companies. So thank you for writing it and thanks for outlining with us today.

Ravi

Absolutely. Thank you for having me.