July 14, 2020 | Episode 182

Turner Novak – The Past, Present, and Future of Consumer Social Companies

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EPISODE 182 BROUGHT TO YOU BY:

EPISODE SNIPPETS

THE PAST: SOCIAL MEDIA

- More **knowledge about your user's real identity** means you can better monetize your users; (Avg. Facebook user value > Avg. Reddit user value)
- Prior generation of social: Facebook, Instagram, Twitter; **primarily built for desktop**
- Building social networks on top of user generated content gives you higher margins over time because you don't have to pay to acquire the content, your users do it for free

JUMP TO SECTION

EMERGING SOCIAL NETWORKS

- If you can make it **easier for someone to have a digital conversation** or interaction that they would have had in person, there is an opportunity to build a business
- The behavior you are digitizing should be hard for existing social networks to copy because its outside of their core product and DNA

JUMP TO SECTION

UNDERSTANDING TIKTOK

- **TikTok designed entire product for mobile-only**
- Full-screen ads on TikTok/Snap vs. 30-40% of screen on Facebook/Instagram/Twitter is much better ad model; pricing on for these ads will likely increase.
- TikTok eviscerated the concept of a follower/social graph. **Their core product is the algorithm that shows you what you want,** without you actually knowing what you want.
- TikTok more of a **media company** than social company

JUMP TO SECTION

IS EVERY BUSINESS A MEDIA BUSINESS?

- **Easiest way to grow your company is to latch onto existing social businesses.** Instagram grew on the back of sharing on Twitter/Facebook
- To build an enduring media brand, know your audience and ask: What do they want to learn about? What do they want to watch? What do they enjoy doing?
- If you are selling ads, know that **person advertising is making 3x what they are paying you**; can you build your own product to fill that gap?

JUMP TO SECTION

PINDUODUO: BUSINESS MODEL

- **Turned consumer social into social commerce**
- Pitch to supply side (apple farmer): We know it's tough to make money selling one apple or like a bag of apples. Join our platform and you can sell 1,000 or 10,000 apples
- Pinduoduo gets the holy grail of consumer social products: **friends inviting other friends to use the product and keeping them in the ecosystem**

JUMP TO SECTION

SNAP'S POSITION MOVING FORWARD

- **Snap has an ambition to become the American version of WeChat**
- Snap recently launched little bite-sized third-party apps that live inside of Snapchat. Platform for people to build on top of
- Snap owns Bitmoji which is a 3rd party avatar which has its own Bitmoji keyboard. Backdoor into Facebook, Messenger, Instagram, Twitter

JUMP TO SECTION

FUTURE OF SOCIAL: COMMERCE

- Each generation of retail/commerce is built on some **innovation of distribution and logistics**
- **Sears:** home catalog and store access to people who were previously marginalized
- **Wal-Mart:** rural demographic and improvement in logistics
- **Amazon:** sells every kind of product and delivers within a day
- **Pinduoduo:** could be that next step change in distribution/logistics

JUMP TO SECTION

VC FANTASY DRAFTS

- Turner didn't have traditional background for VCs – so needed to "hack" his way in.
- **Created a private company fantasy draft** – picked companies he would have invested in after listening to podcasts, looking at website, and reading everything he could about the companies
- Fantasy Draft 1: details here
- Fantasy Draft 2: details here

JUMP TO SECTION

Intro

Patrick (00:01:42): My guest this week is Turner Novak, a partner at Gelt VC. Many of the largest companies in the world today are consumer social companies, so Turner and I discuss the past, present, and future of those businesses. When executed right they're often the fastest growing companies in history, and the rise of TikTok and some other companies we discuss, makes it clear that there may always be room at the top.

The network effects that support these companies make them unique beasts to analyze. And Turner's writing has been among my favorite content on the topic. Please enjoy our detailed conversation on this important area of public and private markets.

The Past of Consumer Social

Patrick (00:01:42): Turner, thank you so much for taking the time to do this today. The device that we're going to use for our conversation is the sort of past, present, and future of consumer social businesses which obviously represents some of the biggest and most profitable businesses in the world, some of the fastest growing. We'll go in other directions as well, but that will be sort of our true north through this conversation.

To begin it, I think it would be neat for you to share with the audience what you think is sort of the first relevant idea or data point in the past piece of this, what antecedents are important for us to consider before we get into today's landscape of consumer social companies?

Turner Novak (00:02:54): Thanks, Patrick, for having me. The first big thing that I really kind of think through is there was a point in time where Facebook was the fifth fastest growing social network. There's a lot of things you can unpack there, but I think one of the big things is that growth is really important, but the quality and the type of growth that you have as a social company, is also very important.

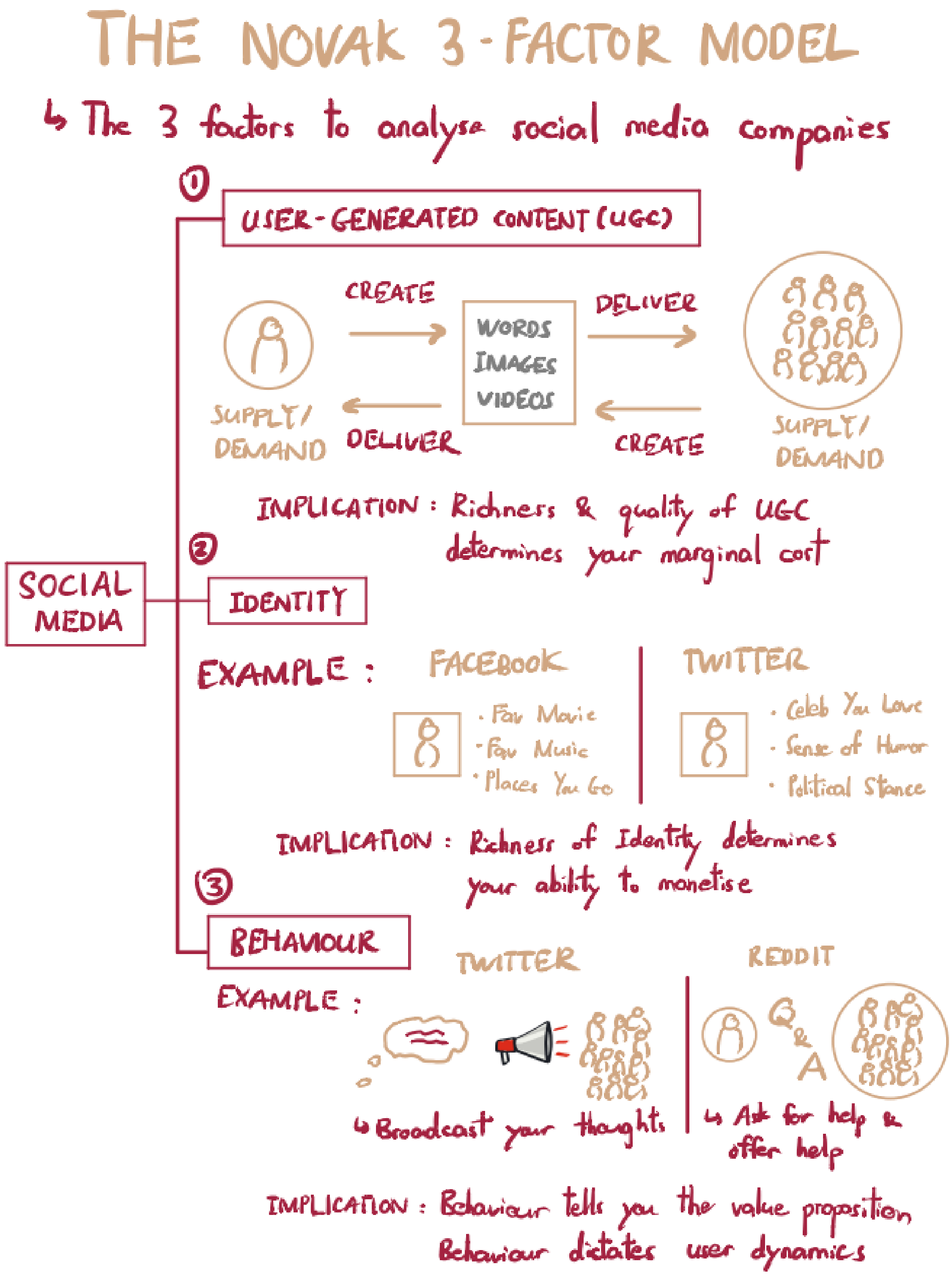
And it kind of all ties into the competitive advantage that you're building over the long-term and Facebook built a pretty good one. We've kind of see that reflected in how the company and the business performed over the last two decades.

Patrick (00:03:28): Say more about that quality growth, so why is that interesting to you? How does the fact that they were once not the number one rocket ship in terms of growth matter in terms of how you think about investing and how you think about how these companies can build a durable advantage?

Turner Novak (00:03:43): I think one of the prime tenants of social networks is UGC, user generated content. And UGC essentially gives you higher margins over time because you don't have to pay to acquire the content, your users do it for free. And then you can show ads in between the content, in historical cases that's been the case. And that's super high margin when you hit scale.

So I think that the quality and the competitive advantage that Facebook built was all built on real identities, and high quality real identities, and they kind of use that as a position of strength to expand into what they've built today. Maybe at the time, if you were just looking at spreadsheets, looking and comparing user growth, looking at charts, that might've been hard to see compared to some of the competitors.

So I think it's really important to look at the product that's being built and then in social specifically, I think friends are a very key component to building a strong social network and real identity.



Patrick (00:04:43): Say more about that. Why friends, why is identity so important, and maybe why have some failed to invert the question a little bit when they haven't included those things?

Turner Novak (00:04:52): I think a way to think about friends and identity, Reddit is a super popular social network, if you want to call it a social network. Specifically in the US where people have the disposable income to spend on things that are shown in ads, but they really don't make that much money right now.

Part of that's related to their ad product, but part of it is also related to the fact that they don't actually know who their users are, so they can't target them with ads. Versus the way Facebook built the business, it was, "Let's figure out exactly who these people are."

> "One of the prime tenants of social networks is UGC, user generated content. And **UGC essentially gives you higher margins over time because you don't have to pay to acquire the content**, your users do it for free."

And even before they rolled out a lot of the machine learning, pushed advertising it was, "you update your profile and you tell us your 10 favorite movies, your 10 favorite musicians, your favorite activities." That's basically what the ad system does now, is it just figures those things out. So, Facebook's product was basically having people create their advertising profiles for them.

So I think looking back, if you were to be looking at some of these companies a decade earlier or two decades earlier, when Facebook was kind of getting founded, you could say, "Wow, their users are not only creating user generated content, they're also creating user generated ad profiles." Which I don't even think any of those things matter anymore, because Facebook does it all automatically based on how you interact with the product.

But I think it's a core piece to how I think about social is it doesn't necessarily have to be ads, but it's more of what's the business model going to look like, how do you go public with this, and are you building towards that today or are you going to have to pivot or change? And then just, how do you think about sort of creating the business model as you grow.

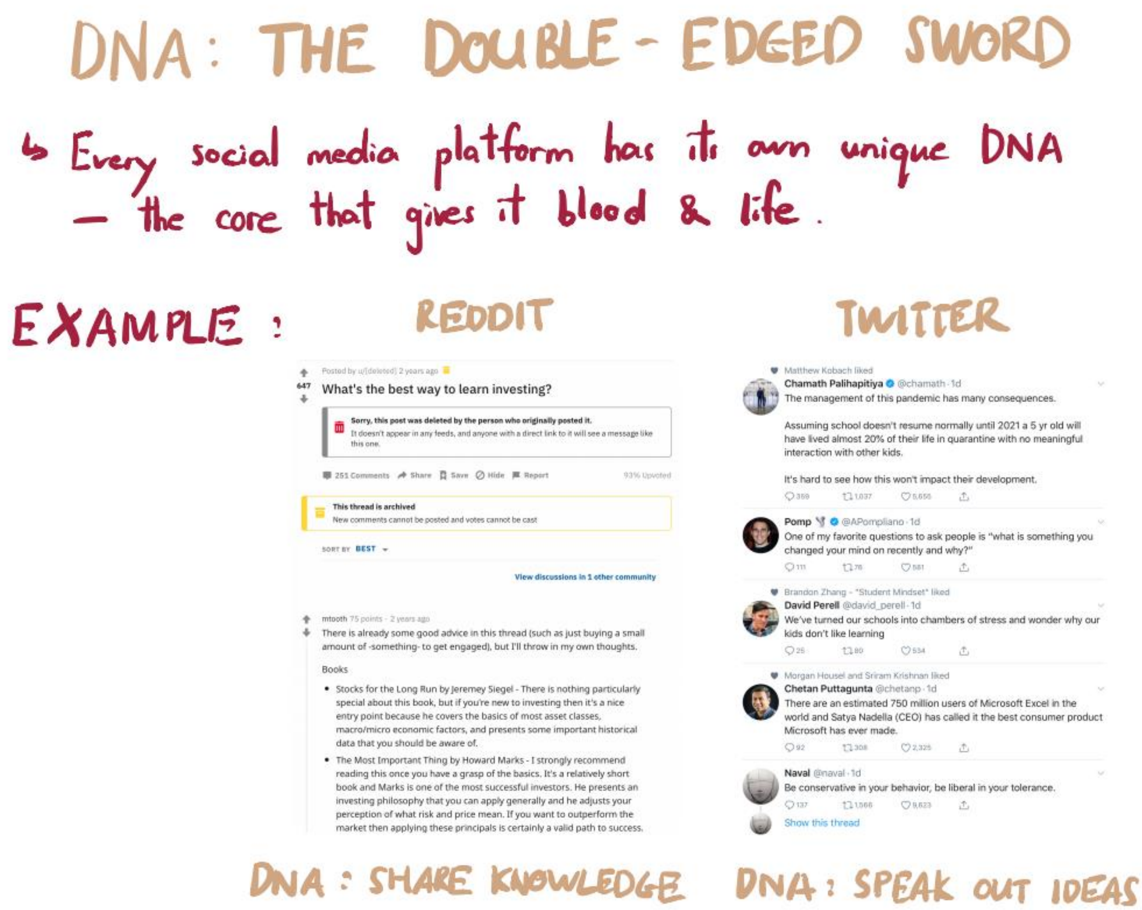
Emerging Social Networks

Patrick (00:06:21): How often are you seeing new proposed social networks? And when you're evaluating them, in addition to identity, real identity I guess I would call it, what other major markers are you looking for in the idea behind a new social network? So you've got UGC, you've got real identity, what else matters again and again?

Turner Novak (00:06:41): I think one of the big things is helping consumers, or helping the average person, express themself and connect with someone. I think really social networks, digital social networks, they are replacing our offline conversations and habits. So if you can figure out a way to make it easier for someone to have a digital conversation or digital interaction that they would have had in person, I think there's an opportunity to build a business there.

And there's a lot of people trying a lot of different things to your point of, how often do I see them? I think the flavor of the day lately has been TikTok, the next TikTok, or TikTok for X. But one of the interesting things about that proposal is those usually don't work trying to copy what other people have done.

You typically have to find some sort of behavior that already really exists or is just starting to emerge and no one else has seen yet, and then create a new network of friends or people who interact with each other around that new behavior. And specifically, I think to be really successful, is that behavior is one that other existing social networks will have a really hard t ime trying to copy or layer into their network, just because of the DNA of the existing common product just makes it too hard to copy what you've done.



Understanding TikTok

Patrick ([00:08:01](#)): Let's go to TikTok now because I just think it's the big obvious topic. ByteDance (parent company of TikTok), I don't know when they'll go public but it's an enormous company that will go public with a huge market cap, it's a fascinating product, it's controversial. You've written an extensive history of TikTok specifically.

I think we'll do this a few times, where we touch on existing companies as ways of exploring your sort of frameworks, so let's talk through TikTok. What do you find so interesting about it? Describe what you think they do best, why it has been such a meteoric rise?

Turner Novak (00:08:27): I think the best way to explain what happened with TikTok, is to first look at some of the existing products. So Facebook was founded and sort of grew up on desktop. And originally it was profiles that you could post to and eventually they were tied together with the newsfeed, which was probably one of the greatest products of all time. I think Facebook did 70 something billion in revenue on a trailing 12-month period at extremely high margins. So one of the best products of all time, but the whole product is built around desktop.

And even Instagram, which was kind of its mobile play which was a great acquisition, the product was designed for, really the feed was designed around desktop. It's the same sort of idea. And for Facebook, like I said, it was a great acquisition, I read somewhere that it took them six weeks to basically copy and paste and tweak the code from the Facebook newsfeed into the Instagram newsfeed. And Instagram did 20 billion in revenue in 2019. And they bought it for a billion eight years ago, so a pretty good acquisition.

And so I think when you've kind of seen Snapchat emerge it was really in mobile first, probably one of the first mobile-first social networks to hit scale. Just the behavior on it was different. It kind of unlocked really the ability to quickly communicate people with your phone. You could send a text to someone, you could say, "Hey Patrick, I'm hanging at the beach, I'm with my friends, my dog's here, we're having some sandwiches and just cracked open a beer, we're on the beach." Or you could just take a picture and send the same thing in two seconds.

So it reduced the friction to communicate with your friends and Snapchat did a lot around that general idea to build like a really big business, but that was kind of the core use case. It was way different than what you do on Facebook. And then obviously Stories was a function of you're sending messages to your friends, you're going to send it to 10 people, why not just throw it on your story? So, you just click one more button and it just sends it to this feed of full screen videos that play back and forth.

That's like a progression of all the different messages and eventually not messages, actually things that were posted to the Story purposefully. And that was obviously full screen mobile video, probably one of the better advertising products you can have on mobile. Slowly got away from the feed, which when you kind of think about how the feed works, you're scrolling your feed, you see an ad. On Facebook there's a lot of white space, there's the ability to comment and like which blocks out part of the video, there's the person's name. So when you really think about how advertising products work on mobile, the Facebook feed, the Instagram feed, that's probably only taking up about 30 or 40% of your screen versus in Stories it's a full screen ad, so theoretically it's going to be more effective. I think the pricing on those ads is still kind of figuring out what the equilibrium will be, the pricing will probably increase a little bit over time, but really those are probably the best ads for mobile.

> **"I think what TiKTok really did was they designed the whole product for mobile**. And that's really what makes TikTok different from Instagram and say Twitter."

And so Instagram obviously saw the rise of Snapchat, how good it was doing and they said, "Oh, let's add this product too, let's stick it at the top of our feed, let's have a feed. The app opens to the feed, and we'll stick these little circles up at the top of the feed that you can tap into and get into this full screen product." I mean and in theory and evidently what's happened it's been also very successful for them.

But when you really think about it, why do they still have the feed? Why do you have to tap to get into the Story's experience? I think what TikTok ultimately did, there were a lot of competitors over the last 10 years that were doing similar products, similar sort of full screen videos. I think what TiKTok really did was they designed the whole product for mobile. And that's really what makes TikTok different from Instagram and say Twitter.

Twitter is another classic example of – it was built for desktop, it's text updates. For the sort of people that are growing up on mobile, it's probably not the most exciting product. I think a lot of people, like you and me, use it obviously because it's more tailored to what we do and we use desktop a lot, so its more tailored to kind of how we use social media. But really, these mobile first experiences are more targeted towards just the average person.

And there's seven, eight billion people in the world right now, so you have a much higher total addressable market of humans that you can reach with your product. So what TikTok did, it was entirely designed from the ground up for mobile, it was full screen videos, it was basically you open the app and it's Instagram stories or Snapchat stories without all the other things.

And tying to the monetization potential of stories or full screen video, the ads are right there. You have an opportunity to get every single user into one of those more effective ads. I think that's kind of the core of what makes TikTok different from sort of the existing broadcast network. I think Snapchat is a little bit different because, it's more focused on friends, versus something like Twitter and Instagram and TikTok, they are much more focused on following creators or influencers.

There's a little bit more that you could probably unpack on what makes TikTok different, but I think it's really the big one. It's just entirely built for mobile, it's really the first scaled broadcast network that was designed for the smartphone.

Patrick (00:13:37): Can you say a bit about how TikTok deals with user friction? And I bring this topic up because your answer is going to be related to a social product, but I think one of the best things to think about when building any product is how to reduce the time or effort or cost between the user being aware of something and getting what they want. And it seems like TikTok is the ultimate example at eliminating or reducing frictions. Can you talk about how they do that and whether or not you think that's important from a business standpoint?

Turner Novak (00:14:07): Yeah. So what I think TikTok did was the idea of a follower graph or a social graph, is completely non-existing on TikTok. The core product is an algorithm that shows you what you want, without you actually knowing what you want. So they basically figured out, similar to what YouTube or Facebook or Instagram will do, where they basically figure out, "Okay, this person is this age and this country, here are their interests." All based on how you use the app.

TikTok does the same thing. But when you're on Instagram or Twitter you usually have to be shown content of someone that you follow or an account that you follow. Or on Twitter you'll see content from people that you follow or have interacted with. Instagram has the Explore Tab, which is content that you might like, but that's not the core product. Both the Feed and Stories are really the two top core use cases of Instagram. Explore is maybe the third, maybe even the fourth, use-case if you kind of think about viewing profiles. So it's really not a core part of the product.

Whereas TikTok it's, "We will literally show you what you think you will like the most as a user."

> "So what I think TikTok did was the idea of a follower graph or a social graph, is completely non-existing on TikTok. **The core product is an algorithm that shows you what you want, without you actually knowing what you want.**"

And as a creator or as an influencer, you might go on Instagram and you want to start a cooking account, where you post pictures or videos and talk about your cooking. Maybe you want to sell a book, or you want to launch a TV show eventually, you want to get a show on the food network about cooking. You have to work extremely hard to grow that account on Instagram, and go from zero followers to whatever followers threshold you want to get.

Versus on TikTok, what they do is they'll show the video to 10 people, see how it performs, and then from there they'll run another test or they'll open up to 1,000, see how it performs. They kind of gauge how people interact with the video, do they like it? Do they share it? Do they re-watch it? Did they go to the profile? Did they follow the person? What time of day was it? There are thousands of different things that they'll do to figure out if you actually liked it. As more and more people like it, they'll just keep showing it to more people that could potentially be a fit.

So you kind of think about it on Twitter, let's say you're trying to get started on Twitter, you have something really smart to say. And it ends up being right in 10 years. And you're the smartest investor ever but nobody knows you exist. Versus on TikTok, you put it out there and basically, there's this concept of finding your 100 true fans or your 1,000 true fans, TikTok will just find them for you. So it really takes away a lot of the friction of creating a follower base or a fan base, and it's just totally different from how the other products work.

And I think we'll have to see Instagram completely rip out the concept and the notion of a follower graph, if it ever wants to truly compete with TikTok. And I don't think they will. It's kind of a core DNA of how those products work. So that's another thing that TikTok has just done fundamentally different from everyone else and makes it just a completely new product that hasn't existed before.

↳ DNA can't be changed: making it both a moat and a barrier

Barrier: Caps the product & services you can provide

Moat: Prevent other social media from copying your main feature

Patrick ([00:17:02]()): It's interesting as its really kind of centered on the supply side, the creative submitting videos. I feel like it's also true on the demand user side, that I've used TikTok before to check it out and then I had to delete it because it's so damn addicting. That algorithm is so good. But I don't think I ever followed anyone or created the user profile, but they just matched the IP address to my algorithm basically.

And so there's literally no friction, like you download it, and two seconds later you're watching videos. You never have to do anything if you don't want to. I'm really curious, you said two things earlier, now we've kind of introduced why TikTok is interesting. To bring back two ideas you said.

First was the TikTok for X, just like we used to always hear pitched Uber for X in the startup world. Why that is going to be a bad idea, because it seems like some of these ideas could be good ideas to apply to other places.

And second, you said that on social, friends and identity matter a lot. And I get that identity here is sort of being served up without friction again, because you're building a profile of what the person's interested in through the algorithm, but it doesn't seem like you need to have friends or identity on TikTok. So I'm just curious how you think about that concept applied here and why TikTok for X is a bad idea?

Turner Novak (00:18:09): I don't know if TikTok is actually a social media company. It's a media company. It's not really a social product. It's really the first of what many people would classify as a social product that doesn't have a social graph. So again, that's just totally different from what traditional social media had looked like. And in terms of TikTok for X, what you see a lot of is we're going to make TikTok for sports or TikTok for kids, but TikTok can already do those things.

> "I don't know if TikTok is actually a social media company. **It's a media company.**"

Based on how I've described the product, if you want to watch sports in a TikTok-like setting, just go on TikTok! Because it will know that you want to watch sports or it will know that you're a kid. So I think they are always tough. And typically, if you want to create some sort of network related around that concept or product, you're competing against TikTok for that sort of supply. If you think of social networks as a marketplace between supply and demand, the existing networks typically have some sort of monopoly on supply.

A lot of people kind of think of social, that to build a new social network, you need to create a new tool for the creators or for the supply side. And what TikTok did was they made something that was very easy to use on mobile.

And this kind of gets in where TikTok is fundamentally different from YouTube. You kind of think of, "How do you make a YouTube video?" Well, you set up camera, you sit down, you probably spend a lot of time planning and thinking about what you're going to record. You might storyboard it. Some of these YouTube videos are 20 minutes long and also for some of these YouTube videos, 18 of those 20 minutes are not very insightful. And it's like a blogger or influencer just filling you in on backstory of their life or something, it might not be relevant what you really want to see. And then also, once a lot of these YouTube accounts get big, you don't have the time to invest in planning, editing, making connections, growing, the branding, all that kind of stuff, selling ad deals, getting sponsorships. You can't really do that all by yourself so you start to hire a team. And you get to a point where maybe you're the person in the video, and you're the person that's the face of the YouTube account, but you have an editor, you have two cameramen, you have two people who are doing your brand deals, you have two people who are commenting and interacting with your fans at the bottom of your video. You're really disconnected from the product.

Versus the way TikTok works, they made it extremely easy to create videos and use on mobile. So you sort of have this entirely different creator class where their DNA is entirely built for mobile. There's a lot of younger users who are typically more creative and more willing to take new risks and try new things, they're also putting more effort into these things.

And it's usually them, they're the ones that are using the product and knowing what is the best type of content to create. And they're doing it all on their phone. And a lot of these videos are 20 seconds, so they can make them in an hour or in some cases less than that. And some people edit on their computer. But for the most part really it kind of comes back to that, and I know that it's really the first product built for mobile.

Is Every Business a Media Business?

Patrick (00:21:08): You mentioned that they're maybe a media company, not a social company as they don't really have the traditional social graph. There's this trope going around that every company needs to have sort of a media company attached to it today. Sometimes this is big brands pay absurd amounts to have a social media strategy or a media strategy. I do think there's a lot of truth to that. Everything is going more direct to consumer, and therefore products and services and brands and companies need to do the same and think about this for the media lens.

How would you advise somebody go about building a media company in terms of, let's assume that we've got some sort of content? Distribution-wise, is it a scattershot? When should they go to YouTube? When should they go to Twitter? When should they go to TikTok? I'm just curious of your thoughts on building a media strategy, given the prevailing platforms of the day.

Turner Novak (00:21:55): I think it has to do with what the audience that you're going after wants to see and then where they are. And I think even before that, it's the question of, what are you good at? I wanted to start a media company today, I have no money to hire anyone, I'm married with a kid, I don't have 120 hours a week to work on creating content.

I need to figure out what I already know a lot about and what am I good at and just start doing it and just see what sticks. See who follows me, see who my fans are and just put it out there and just see what works and go with it.

And if my audience is predominantly on TikTok, maybe it's people who like watching lip-syncing, dancing videos. TikTok has actually done a very good job of laddering in other forms of content which is life's most successful. Or maybe I'm on Instagram, I'm very attractive, I boast about how great my life is, I'm like a lifestyle going out to eat all the time, and that's what I just do naturally or that's what I want to purvey, that's where I need to go.

So I think it's about understanding what that social network reflects, that the ethos that social network reflects is what you're trying to accomplish as a media company. And I think it's important to not rely on any one platform or distribution channel.

I think figure out one that works, and this is a common way to grow, actually create your own social network. I mean, you look at Instagram really grew on the backs of sharing to Twitter and sharing to Facebook. Then after the acquisition, I think if you looked at just the way user growth kind of shot up after the acquisition, it looks like about 75% of Instagram's new installs were actually coming from Facebook, just from the feed. So it can be super helpful to find another distribution channel to grow off of.

There's a certain point where you want to make the trade-off of: when do I own my own distribution and when do I diversify to other channels. But I think it can be super helpful to piggyback on another channel. Like look at Snapchat. They grew entirely on iOS, they weren't even on Android, and then their Android app was not very good up until a year ago. So I think it can be growing on other people's platform, just use them for free distribution, reduce your cost to acquire customers and users.

So in terms of starting a media company, I think that there's a lot of different ways to do it. You just have to be creative and know your audience. Know where they are and know how to speak to them and just iterate on what they want and make them your fans and then do things that help them. What do they want to learn about? What do they want to watch? What do they enjoy doing? And if you build for that, you'll be able to build an enduring media brand.

Patrick (00:24:18): We talked a lot about building really rich identity profiles to make advertising more programmatic and easier. And we've seen Facebook and Google absolutely dominate the ad market, maybe TikTok now will be on the rise. Snap and Twitter maybe smaller players. What are your thoughts on other business models that social or social media or media companies could employ outside of advertising that could create really big businesses that investors might be interested in?

Turner Novak (00:24:47): One of them I've been thinking about a lot lately is commerce. I think subscription is one. You kind of set a ceiling for what your revenue looks like when you have subscriptions versus when you really think about commerce. So, if you kind of think about Facebook, most of the ads that you're seeing on Facebook or Snap or Instagram, they're facilitating commerce.

I think Facebook did $186 in revenue per US user over the last 12 months. That's a lot, $186 with RPU (revenue per user). If you assume that the average marketer is spending to get about a 3x return on their investment, so you take 186 times three, it's about $560 in commerce that's being transacted because of Facebook. Which sounds like a lot. But when you compare it to the average US household income which I've been trying to figure this out, there's very wide estimates. But if you assume it's anywhere from $50,000 to $70,000, that's probably about 1% to 2% of annual household spending. Which in some senses you think, "Wow, that's pretty low, it's only 1% or 2%." But it's also, "Wow, Facebook is probably driving about one to 2% of all spending that households do in the US, that's pretty incredible."

So Facebook is potentially leaving some of that money on the table. They're facilitating the ads. They're saying, "Okay, we're giving all these other companies that are using our product, we're giving them 3x more revenue that we could be capturing ourselves." Now obviously there's different margins on that revenue, but I think there's an opportunity to get into something where you go more full-stack in these different categories. That instead of generating money from advertising, what if you're a mobile game company?

There's a good example in China, with ByteDance, which owns TikTok. So ByteDance saw that a lot of gaming and education companies were spending tons of money on their platform. So my guess is they were thinking, "You know what? Why don't we just kept out of value? Why are we giving it to our advertisers? There's a ton of opportunity here for us too."

Basically, of the gaming companies that spent the most on advertising, 68 of the top 100 spent over half of their marketing budgets on Toutiao which is ByteDance's other product before TikTok. So TikTok is starting to get into mobile gaming now. And similar to what Tencent did, if people are familiar with Tencent, basically its WeChat which is kind of the Facebook/WhatsApp of China. And then Tencent started getting really heavy into gaming ,and now a lot of their revenue comes from gaming.

> "So I think we'll start to see a lot of the advertising companies in the US, **really just start to get further and deeper into non-advertising based businesses.**"

So I think TikTok is doing the same thing, where there's been some pretty good early success where they've had the top app for a couple of weeks, just a mobile gaming app in not only China but also Japan. So TikTok is saying, "Okay, instead of showing an ad to someone, let's show an "ad" for our own product and shift them into this game that we then also have 40%, 50% operating margins on, and let's start monetizing that way."

So I think there's different opportunities beyond just advertising, I think advertising is probably one of the best places to start. And you think of Facebook, and they've got their marketplace initiative, kind of Craigslist but it's on Facebook. There's some obvious benefits to having your Facebook profile and being able to verify who you're buying from right there in the app, there's a lot of opportunities to push people in.

People are trying to sell things on the Facebook Marketplace, what happens when you can suddenly place ads in the marketplace? What happens when you take, I don't know if this will work, but you start putting actual real first-hand products direct from brands and manufacturers in the marketplace instead of just a second-hand people trading things?

So I think we'll start to see a lot of the advertising companies in the US, really just start to get further and deeper into non-advertising based businesses. But I think it's a good place to start. At the same time and you have to be careful because we've kind of seen Facebook's ad product is probably one of the best products of all time.

You have I think it's eight million businesses advertising on Facebook, and a lot of them are on auto buy. They have their credit card hooked up and they say to Facebook, "If you can guarantee us 3x return on every dollar that we spend, show the ad, we don't have to do anything." If Facebook can make someone make one more scroll or a couple more scrolls and show another ad or two, it's nearly zero marginal cost on that new revenue.

So I think Facebook runs into the challenge of, "Okay, we're trying to shift people into stories, we're trying to shift people into the marketplace, we're trying to get people to use messenger and build this WeChat-like ecosystem within our messaging product. But our Feed makes so much money, it's on autopilot right now, so how do we make that transition?" I think it's really hard.

So you have to be careful and you have to be very attentive about how you build your company and how you add different product lines over time. And make sure the incentives align, not only for you as a business but also for your users. And I think we've kind of seen sort of at Facebook, if you look at their user growth in the US, which is where most of their revenue and cashflow comes from, it's been flat for almost a decade.

They're growing like 1% or 2% a quarter since they IPO'd in the US and that's where all the money comes from. So that's a little bit concerning. Obviously they've reach a lot of people in the US, but a lot of people are churning out because the product they're just like, "I don't want to use this, it's just a bunch of ads and none of my friends are on here anymore, it's just not a product that I enjoy using."

So I think there's a lot of trade-offs with different business models and you have to think about the way that people use my product and the way I'm making money, do they go hand-in-hand? Can I actually generate cashflow and revenue from creating a product that people actually enjoy using and people are using a lot?

The Pinduoduo Business Model

Patrick (00:30:43): Can you talk a bit on the social commerce side about Pinduoduo and what that company does, why it's interesting, maybe why a similar opportunity could work in the US? And I thought maybe before you answer the question, everything you just said reminded me of a tweet that Bill Gurley sent out on the topic of how advanced the Chinese infrastructure is in social and mobile. I thought I would read it because I would just love to hear your reaction on this.

So Bill says, "The Chinese ecosystem has two things that the US doesn't. A competitive programmable payment system and competitive programmable logistics. Startups in China can build upon the core infrastructure pieces with an API call, cheap, easy payments and same day, next day delivery." So obviously those are really important. Payments and delivery are really

important for commerce. Maybe with those two points in mind, talk about why China has been so competitive and what Pinduoduo is doing.

Turner Novak (00:31:33): This is going to be a long answer, so I'll try to kind of tie in everything together. I think Pinduoduo, it's the same thing with TikTok and ByteDance, it's the first commerce company that's hit scale and reaches hundreds of millions of people – that was built for mobile. So when you think of Amazon, or in China you think of Alibaba and JD, those are kind of the big two. A lot of these products, you go on Amazon, you search, you type in what you want.

Whereas on Pinduoduo there's no real concept of search. And it's really more of like a game. So the way Pinduoduo initially started, it's not quite like this anymore, but when it initially started, you could do kind of group buying to get discounts on products. And they started with fruit.

So jumping back a little bit, the core component of Pinduoduo is that there is no search. So of course it's similar with TikTok, you can place ads really easily when people just open your app and you're showing what you think, what the app thinks you need to see and the user sees what they think they want to see.

So it's like with the Facebook newsfeed, as you scroll it's not chronological. it shows you "what it thinks will be best for you" and by the way, 30% of it is ads. So what Pinduoduo did, was they partnered with basically fruit farmers and fruit vendors and basically said, "Hey, we will help you sell your products to people that you want to sell to."

So if you really think about it as a farmer, in 2015 when Pinduoduo was founded, as a farmer you have to plant all your crops, you have to harvest it, you have to bring it to town, you have to sell it. That's kind of not quite how most people sell products in 2015. So they basically said, "We're going to help connect you with products."

So they basically said, we'll give the example, things like apples. Apples were one of the first couple of things that they did. An apple farmer wants to sell their products, it's tough to just sell one apple or like a bag of apples. You can probably make the equivalent of $1. But if you could all of a sudden ensure that you could have 100 apples being sold or 1,000 or 10,000, it kind of starts to be worth it. So you start using this weird mobile app that you probably just got on your smartphone recently, but this random app is helping you sell your apples.

> "That is sort of the Holy Grail of consumer social products: is **friends inviting other friends to use the product and keeping them in an ecosystem.**"

And on the consumer side, what they did was they said, "Targeting people in sort of third tier and below cities in China," which is just sort of a way of describing more rural areas, people who maybe didn't have quite as much income as the big cities. And they said, "Hey, we will help you buy your fruit and buy your groceries. And by the way, if you invite a friend to join and buy with you, we'll give you a discount." So, what happened was a lot of people just started inviting their friends and instead of one person buying one apple, you'd have 10 people buying an apple each or maybe a couple apples each. And then also with that same farmer, Pinduoduo would connect hundreds of other groups also doing the same thing. So as a farmer, you're like, "Wow, I just sold 10 million apples or 10,000 apples over an app, this is amazing." For a consumer you're like, "Wow, I just got 50% off of these apples on my groceries from inviting my friends."

And as Pinduoduo, you're like, "Holy cow, we just got a ton of users for free because our users are all inviting each other." That is sort of the Holy Grail of consumer social products: is friends inviting other friends to use the product and keeping them in the ecosystem.

Fast forward to today, really their core value for a lot of these manufacturers and brands is, "Hey, we will help connect you with consumers." Instead of let's say you're, I don't know if this is the best example, but it's one I've been using. Let's say you're a vacuum manufacturer, you create vacuums for $10 each and then you sell them to an American company for $30 each. And then the American company goes and sells them for $200 each overseas.

Instead of selling to a brand in the US, why don't we be that brand? And actually, one of the more interesting things that they did previously, is they took inventory of all the things they bought from the manufacturers and then sold it to the consumers.

Now, it's just literally a marketplace. So you kind of think about it, a good example would be if you are in the US are you're on Facebook, you see a watch, you buy it for $40. It was probably manufactured in China for like five bucks a unit, a brand bought it for 20 bucks a unit, and then made a mark up selling it here in the US.

What Pinduoduo did was they let those manufacturers in China sell directly to Chinese consumers in China. Of course the price point was a little bit lower than the $40 or the $200 they'd sell in the US, but they probably got about the same amount that they would've gotten if they just sold it to the US manufacturer, the US brand of selling it overseas. And then by the way, they can also say, while this is all going on they're still producing for these overseas manufacturers but they probably have excess capacity.

So Pinduoduo said, "Hey, you can produce a million more units, we'll help you sell, we will do this whole process," just topping out your existing capacity in your factories. So they made it super intriguing for all sort of pieces of the ecosystem to build this product together which now they have the second largest eCommerce company in China. And they were founded five years ago. It's probably one of the fastest growing companies ever.

I mean Pinduoduo’s revenue, in year five of a business I think they did $4.1 billion in revenue, that might be off a little bit, but it's just insane how fast it grew. So I think that's an example of how you their products are related to commerce, but most of their revenue comes from ads actually. So similar to TikTok, where you open the app and it shows you what it thinks you want to see, with Pinduoduo you open the app and it says, "Hey, check out toilet paper, some paper towel, cheap lamp, a blanket, wrapping paper because it's Christmas." Like they just show you random little discount things you might get at a dollar store, and some of those things are actually advertisements and it's Pinduoduo taking a cut of.

I think they said in one of their disclosures like 0.6% is the average, that number could also be off, but it's just a really small cut. So, I think there's a really interesting opportunity to potentially try that in other markets, which maybe that might tie into another question that you might have next.

PINDUODUO BUSINESS MODEL

① AGGREGATE PRODUCTS (SUPPLY)

PRODUCT $6.99	PRODUCT $6.99	PRODUCT $6.99	PRODUCT $6.99
PRODUCT $6.99	PRODUCT $6.99	PRODUCT $6.99	PRODUCT $6.99
PRODUCT $6.99	PRODUCT $6.99	PRODUCT $6.99	PRODUCT $6.99
PRODUCT $6.99	PRODUCT $6.99	PRODUCT $6.99	PRODUCT $6.99

INVENTORY

$3.99

(AT PINDUODUO'S PLATFORM)

② AGGREGATE CONSUMERS (DEMAND)

(INVITE FRIENDS TO PINDUODUO TO GET DISCOUNTS)

(SHOPPING GROUP)

③ CONNECT PRODUCTS (SUPPLY) WITH CONSUMERS (DEMAND)

(SHOPPING GROUP) → PINDUODUO ← INVENTORY

$3.99

Patrick ([00:37:35](#)): Yep. I think you know where I'm going which is Zynn, an app that I think was at the top of the app store which may be also relevant for this conversation, probably coming from a company that very few have heard of, so maybe go in that direction.

Turner Novak ([00:37:47](#)): Oh man, that was actually a different question I thought you'd ask, but I want to answer this one too.

Snap's Position Moving Forward

Patrick ([00:37:51](#)): Let's keep our ordering right, so what question did you think I was going to ask? And then answer that one and then we'll come back to Zynn.

Turner Novak ([00:37:58](#)): Okay. I thought it was going to tie into Snapchat and what they're doing. So maybe to just backup a little bit, to jump into what I think about what Snap has been doing. So when you really look at the numbers, Snapchat has about 86, 84 million daily active users in North America. Which is about half as much as Facebook and pretty close to Instagram. And analysts peg Instagram as being worth anywhere from $200 to $400 billion. I mean the number is pretty insane how valuable they think that business is. But, I mean Snapchat has a really similar reach in same countries that Instagram and Facebook make all their money.

But when you look at sort of the delta between the pricing of the ads, on how many users and how many total impressions they could potentially show, and how much time is spent in the apps, there's a pretty big disconnect. I think that will slowly close over time. But Snapchat's also a product that a lot of people in developed countries use a lot. And a lot of these people are early adopters and people who try new products, young people, teenagers, people in their 20's, people in their 30's.

And Snap has sort of always had this sort of ambition to become a little bit like WeChat. Which as we talked about earlier is one of the big social products in China, and that's actually how Pinduoduo grew. So Pinduoduo in the early days, it was basically when you would do one of those “group buys” with your friends, it would say, "Hey, share this stuff on WeChat." So you'd go and post to your WeChat feed or you'd send a message in WeChat to someone and get them to join your purchase.

Over time WeChat slowly added these in-app mini programs. It's like an app inside WeChat called the mini programs. And they made it so that other developers could build little paired down apps, super lightweight, maybe a couple megabytes, maybe even less. That you could actually run your app *within* WeChat. So a couple of the really big mini programs that really took off were: (1) Pinduoduo which as of 2019 had a hundred million users in their WeChat mini program; (2) Meituan which is it's kind of like Uber Eats or GrubHub of China, mixed a little bit of Expedia, mixed with a little bit of sort of some of these other on demand last mile delivery providers; and (3) JD was also a big one, had about 50 million users. A lot of different commerce companies.

There was a lot of these companies that grew really quickly on these WeChat mini programs, and Pinduoduo was the standout. Two times bigger than the other ones and who grew way faster. And I think the market cap is over a hundred billion as of today when we're having this conversation. And it was founded in 2015, That's pretty incredible. They're these little bite-sized third party apps that live inside of Snapchat

So Snapchat recently rolled out a new initiative that it's calling “Snap minis.” Which is basically the same thing. They're these little bite-sized third party apps that live inside of Snapchat. And I think understanding that Snapchat is actually used a similar amount by people in the US and in Europe as some of these other big companies, we think of these dominant social platforms like Facebook and Instagram and you're like, "huh, there is actually a pretty big opportunity for building these third party products inside Snapchat."

And then you kind of think as well, you say, "Okay, Snap has this third party avatar thing called the Bitmoji," sort of a digital avatar that you can change, and it actually plugs into other apps, and there's a keyboard that goes into all these other apps. So if you kind of think Snapchat has this Bitmoji keyboard, that is basically a backdoor into Facebook, into Messenger, into Instagram, into Twitter. That is sort of like if you push GIFs that you post online, it's just the same thing with the emoji. I wonder if there's an opportunity to actually put these mini programs in that keyboard.

When you also look at one of the announcements that they just made. Snap recently announced that the Bitmoji keyboard was going to be integrated into every single Samsung phone. That's one of the big smartphone manufacturers. So you'd say, "Ah, so the opportunity for Snap mini is actually potentially extends beyond Snapchat and the actual user base of Snapchat. So it looks pretty big."

So my thinking is, I wonder if someone will be able to build a really quick company, really fast, on the back of these Snapchat mini programs. And I've thought a little bit about what it could look like, I think the stage that was set in China with your original question about being able to really quickly do payments for a small fraction of the 2% or 3% that's charged today, because that eats into your margin.

And then also these programmable last mile delivery providers. I don't know if that's quite here yet. But I think there are some companies that are doing things like Postmates, DoorDash and Uber. They all have these sort of last mile APIs, I don't know if they're quite ready yet, or if they're cheap enough yet, for companies to really sort of scale a business on. But it might be there eventually.

So that's kind of one of the big theses I've been kind of playing around with over the last, I mean really for the last year when I heard and when I realized what they were doing with their Snap kit product, which this is an extension of that. Which is sort of like their developer toolkit, where if you're a developer and you're making a product, you can use some of Snapchat's tools to build your product on.

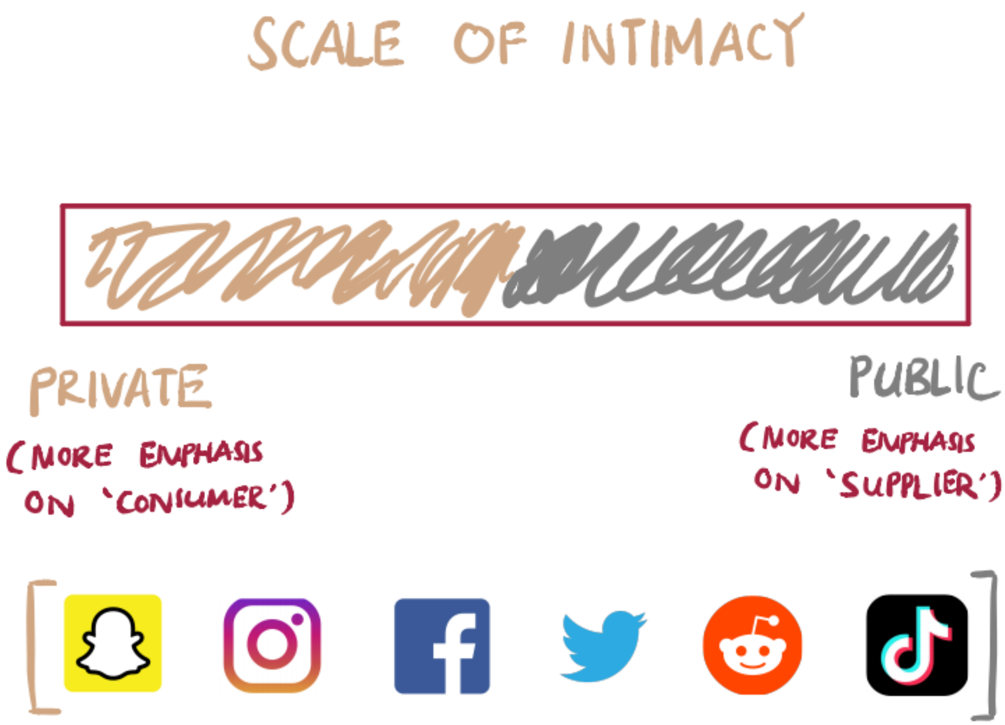
So take Bitmoji. If you launch an app you have an instant, always-on avatar for every single user if they use their Bitmoji. There's no defaults to these ugly avatars that looked like no one is using the app. Every single user has an identity. And they're integrating things like Snapchat's advertising program and will probably eventually incorporate these mini programs as well.

So I just think it's a really interesting ecosystem to build on and it probably means great things for Snap's business performance. There's probably a lot of opportunities for them to make money too. So I've been kind of trying to pay attention, trying to think about, how could you really do it in the US? I don't know if it'll look like Pinduoduo. But I think there'll be something. So I've kind of been thinking about it and been on the lookout for the last couple of months.

The Future of Consumer Social: Commerce

Patrick (00:43:51): It makes me think that this is a much bigger conversation than consumer social or social media. Really when you get down to the brass tacks about the businesses themselves, we're talking about commerce. This is relevant for Amazon. I remember Scott Galloway suggesting one time that Amazon just starts sending you the equivalent of a physical feed. A box of what it guesses you might want and you keep what you want and send back what you don't and it builds an algorithm over time.

And I thought that was so clever at the time, until you realize that these social companies are doing that at far faster feedback loops. Like they're learning way faster than a sort of physical feed ever could. And I have to admit, I order everything on Amazon, if I was ensconced in some social product that knew me more intimately and just made my life easier, I'd probably switch my commerce there. It seems like it's literally a competitor to Amazon.



Turner Novak ([00:44:38](#)): Yeah, I do think that. And I think the interesting thing with retail, is that a lot of these retailers are built on figuring out new forms of distribution and logistics. So Sears was basically built on the catalog and the postal service back in the day. And Sears really hit a lot of people who were marginalized. People who couldn't afford to or were shunned from going into these big department stores with wealthy folks. They'd say, "You're not allowed in here." So if you can get a catalog mailed to your house and you can buy a lot of the same things, that was a big mistake by some of their serious competitors by basically cutting off half the population just because of the color of their skin, or how much money or income they made, or they weren't able to commute into the city.

And then you think of Walmart. They sort of did a similar thing where they hit this sort of different demographic that wasn't quite being hit properly sort of by Sears, but also optimized a lot of things on the infrastructure side.

And even with Amazon, Amazon really is a logistics company, I mean the core product for consumers isn't really that great.I don't know of anyone who opens up Amazon and says, "Wow, I love ordering things here, the experience of using Amazon is so much fun." I think the experience that people like is the quick shipping. I mean they built out that logistics infrastructure. So, I wonder if you can sort of, like that Bill Gurley tweet earlier that you're talking about, build something around programmable last mile payments. I wonder if you can build something that is basically this outsourced Amazon fulfillment network.

And that's maybe something that Shopify is kind of doing. But Amazon is also doing it as well with some of the stuff that they're doing, the third party fulfilled by Amazon. So I don't know. It's a tricky thing with commerce, there's a lot of stuff related to getting distribution and reaching consumers, but also related to how do you ship things to people. And also how do you pay and make profits doing that. Which that's the key – generating cashflow.

Patrick ([00:46:30](#)): Let's come back now to Zynn, which was probably an app that almost no one's heard of, I hadn't heard about it before reading your post on the topic. I think it was the top downloaded app in the US at some point recently. Describe what that is and why that's related to everything we've been talking about.

Turner Novak ([00:46:43](#)): Yeah. So Zynn was an app, well is/was, but I'll get to that. It was basically TikTok, it was exactly the same thing. Not quite the same sort of polished features, but the big difference was you got money for watching videos. You got about a $1 or a $1.50 per hour of watching videos, which like to me, I'm not going to waste my time doing that. But for some people, if you watch TikTok a couple hours a day, you can make 10 bucks watching videos online. People do that kind of stuff all the time. And then they also did a thing where, "Hey, if you invite a friend we'll give you $20." And this launched in the beginning of May, middle of May. So if you kind of think about the state of the US, we had something like 40 million people that were on unemployment, so a lot of people didn't have a job.

So if you could suddenly open up an app, and make 100 bucks a day inviting people to it and watching videos, which you would probably be doing anyways when you don't have a job, or when you do have a job actually, it made a really interesting sort of environment for an app like this to grow. When you really think about a lot of these people who, maybe they're working at a hotel, they're working in a restaurant, they're not really making that much money. The amount of money you're making from an app like this is probably similar.

So it's basically this complete entire copy of TikTok. They went to profiles on TikTok and actually ripped videos. So they went to certain creators and they just download their entire profile and re-upload it in Zynn. They would also go to popular sounds. Music and audio is a really big thing that TikTok has done, you can search for a certain sound and you'll see all videos that have that same sound.

We didn't really touch on this when we talked earlier about TikTok, but that was one of the big things that TikTok did. They basically created audio memes. If you're not familiar with memes, they're typically more used by Gen Z, Millennials, they're a way of expressing something funny. And typically if you take the form of media that was posted and you do your own take on it and it relates to current events or something culturally. So TikTok basically did this with sounds. Where if there's a funny video with a certain sound, you could then use that same sound and re-enact it. And that was related to its DNA of initially being a lip-syncing app when it was called Musical.ly before ByteDance acquired them in 2017. What Zynn did was actually go to some of these popular sounds and just rip all the top videos and put them in their own app.

So the whole thing was, well it wasn't very good. I mean it was executed well and they scaled really quickly. They were getting hundreds of thousands of downloads a day. They were the number one app for a couple of weeks. It wasn't just number one in a certain category, I think they were in entertainment, but they were the number one overall app. Suddenly they were just removed from the app store. The reasoning for removing them was that they copied contact which is really interesting, because both paying users to do things and copying content from other companies, is par for the course in China and it happens all the time.

That was one of TikTok's big growth strategies. They just copied videos and use their ability to feed the best videos that people wanted to see to make the product really enjoyable. So they would copy a video that did well somewhere else and then it would do 10 times better on TikTok.

So that's what Zynn did. And the reason this was interesting, so when I first sort of saw it at the top of the app where I'm like, "This is silly, it's just a giant pyramid scheme." But when I looked into it, I found out that Zynn was actually backed by Kuaishou which is ByteDance's big competitor in China. If you want to compare, it's like the Twitter or Snapchat in relation to Facebook, they were sort of like a little brother.

People maybe didn't quite give them quite as much respect, because they had slightly more rural user base, their revenue and cashflow wasn't as high, but they're still valued at like $30 billion.

And then right before in December of 2019, they raised $3 billion from I think Sequoia, Tencent and a couple other pretty big Chinese venture and growth investors. So in my mind I was like, "Wow, you guys have a lot of money to acquire and give away to people just to download and use the app."

And one of the big things that Zynn and Kuaishou did in China was, they're a little bit different from ByteDance. ByteDance generates most of its revenue through ads, Kuaishou generates a little over half of their revenue from live streaming. Which is basically TV QVC. where you watch someone and then you can buy products from them directly from the content that you're watching. It kind of made me wonder, and it kind of gets back to our conversation earlier about friends, a lot of these new media companies that don't rely on a friend graph that constantly brings the users back in the experience and re-engages them, you really have to do it through content of some kind or push notifications to get them to open the app. And that costs money if users aren't creating it for free.

So one of the thoughts I had was, are a lot of these just sort of next generation TV networks. Where they're acquiring content and they're probably not going to be $500 billion businesses like Facebook or Instagram, but you could probably make a $10, $20, $50 billion company like a CBS, like a Viacom or like a Disney, where you've just got a lot of media and you're acquiring it, or even like a Netflix.

> "A lot of these new media companies that don't rely on a friend graph that constantly brings the users back in the experience and re-engages them, you really have to do it through content of some kind or push notifications to get them to open the app. **And that costs money if users aren't creating it for free.**"

So it kind of tweaks the way you maybe think about social and the different opportunities. And I think if you really want to build a business that has a defensible competitive advantage, that has a textbook definition of higher than industry average operating margins for an extended period of time, I think you really have to have a component that helps you do that which is probably friends that are creating content.

Patrick (00:52:21): What a fascinating competitive story if nothing else, right? I mean, you really do get the sense that these are war like battles between these huge, massive global platforms. Just yesterday, as we're talking here today on the 30th of June, the majority of these Chinese apps were banned in India whether or not that lasts or I don't know. But it does seem like this is a geopolitical conversation too. Amazon cares, nation states care, I mean we're literally talking about what hogs the attention of all humans, a pretty big market.

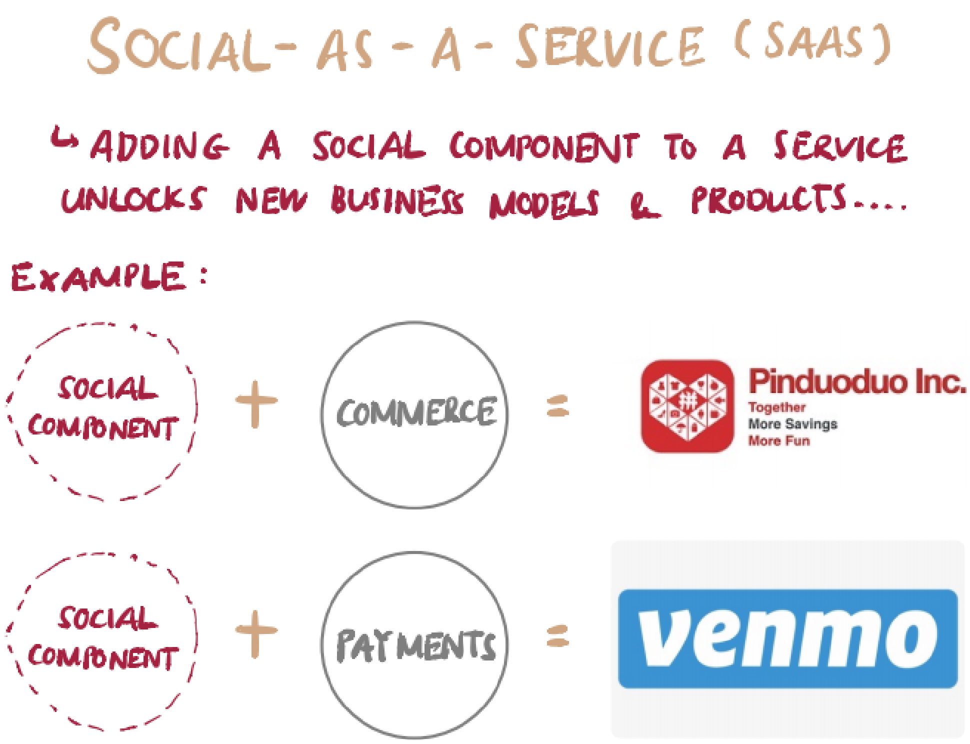
Turner Novak (00:52:51): Yes. And you kind of think of, what's probably the most powerful person in the world, I mean the president of the United States, is typically one of the most powerful people in the world, what does he do all day? What product does he use all day? Think of how much strategic, not even just business power but societal power that product has over the rest of the world. And I'm talking about Twitter.

You really need to think about these as they're not just social network, I mean they are social networks, but they encompass so much more than that and there's a lot of different ways to think about them and ways to think about the value they create in the world and also sort of the business power when you think about a competitive advantage, how that all interrelates with each other? So it's fascinating, I'm sure we could probably talk about this for another couple of hours if we had the time.

Patrick (00:53:35): What have we not mentioned about social technology media, this whole kind of general area that you're really interested in that we haven't covered yet?

Turner Novak (00:53:43): I mean I think one of the interesting things I've been playing around with kind of relates to Pinduoduo in commerce, they basically created a social commerce company. What other things can you add a social graph to, to create a product? Venmo is a really interesting example, they added a social component to payments and it's sort of a peer to peer network which it worked really well for them.

I think the Cash app out-performed, out-executed and they don't really have a social graph. So I don't know if a social graph necessarily works and exceeds business models and other industries, but I think there's interesting ways to incorporate social components to sort of add network effects to products that might not have network effects.



VC Fantasy Drafts

Patrick (00:54:27): So my closing question before my traditional final question, talk to us a bit about this idea of a fantasy draft portfolio. It sounds like a fun game to play, but I suspect there's more going on there in terms of what it forces you to think about and learn. So I'd love you to share why you do that and what lessons you've taken from the exercise.

Turner Novak (00:54:45): So for me in order to get into a venture capital, there are typically certain requirements that a VC who's going to hire you or an LP that's going to invest in your fund is looking for. And I pretty much had none of them. So I didn't go to a school anyone's heard of, I had never worked at tech company, I also didn't have any money to Angel invest.

So what I did was, I fake Angel invested. I mean I didn't do this illegally in any way. It was like fantasy, it was like fantasy football but it's for investing. If you're a public market investor, it's kind of like a paper trading account and that's maybe a better analogy for some of your listeners as a paper trading account for venture.

The first one that I did, I picked seven startups that had maybe raised a couple of million dollars, the valuations were 10 to $20 million valuations, basically not on anyone's radar. There was no massive Sequoia Capital coming in and putting in $100 million and everybody knew about the product.

It was mostly stuff that other people weren't really betting on, and I was kind of trying to prove just the insights that I had of, "Yeah, I'm just a random guy who lives in the Midwest." But I follow this stuff pretty closely and I really think about venture as investing.

A lot of people see venture as company building and catching momentum waves and looking at charts, ramping up. I think about that a lot and all that stuff's important, but I also really enjoy investing. So I think about every investment and I'm like, "What's the competitive advantage here? How does it go from being a $10 million business to going public one day?" So that was sort of the lens I took. I didn't have any data for any of these companies, I reached out to some of the founders and there was mixed reactions, not everybody really got back to me. Some offered to meet up or send me their deck, but I never actually ended up getting any data from anyone. I basically just looked at the website, looked online as much as I could finding articles, finding podcasts interviews, YouTube interviews, looking at their social media profiles, trying to get an idea like who they were and just figuring out, "Would I bet on this founder if I was a VC?"

And it's easier to do that when you don't actually have real money and it's just kind of a game, it's fake. But that's what I used to build a track record. And then I did a second one as well, I picked about 18 companies where I broadened my scope a little bit and it was kind of supposed to be, usually when you do venture you raise a small fund and then you raise a bigger fund and you slowly raise larger funds as you go until you hit the sort of your sweet spot of what your strategy is going to be long-term.

But typically you can't go and say, "Hey, I've never done this before, but I want to have a $200 million fund." You have to start at three or five and then go to 10 and then go to 50 and then go to maybe 100, you slowly build up over time. So I started to kind of do that. I picked some companies that I thought would do very well and I kind of used that as a fake track record and just said, "Hey, six of the seven companies in this portfolio have raised follow on financing, three have raised multiple rounds of follow on financing,"

Which some cases in venture that doesn't mean much. But it means that somebody else thinks that the valuation is higher because of how the company has performed and then one of the companies got acquired. So I kind of used that as a track record to go in interviews and say, "Maybe I could be good at this." I think a lot of public market investors do similar things when they're trying to get their first job.

And it's similar to venture where you maybe angel invest, you have $50,000 and you put a couple of thousand dollars in some friends companies. Just like in the public market where you have a fake account where you have a million dollars and you just do a strategy, or maybe you have your own account, maybe it's less than a million dollars and you just make a name for yourself and build a track record.

So that's what I did. And I recommend it to a lot of people. It's actually a lot of fun. I learned a ton, I basically learned how to be a VC.

I had to force myself to make good investments, which I thought I would be able to do, it's harder than you think it is, especially if you come from more of an investing background, you're thinking about, "What's the opportunity here?" And you're probably looking at financials and audited data, whereas if you're a startup investor it's basically somebody telling you an idea that they have and, "Here's a product or a product we have that we have four customers or we have three employees and we want to go out and build a public company." So the way you think about it is a little bit differently, but I still think there's a lot of lessons to be learned from just going out and just doing it and just trying to go through the motions in whatever way that you can.

So I recommend it to everyone trying to get into venture. Just do a fantasy portfolio especially if you don't have a lot of money and you don't have the capital to write off a couple of hundred thousand dollars just putting into startups and seeing what happens. I think it's definitely the way to go.

Patrick (00:59:17): The closing question that I ask of everybody is for the kindest thing that anyone's ever done for you.

Turner Novak (00:59:23): I knew you were going to ask this. So, I was thinking about this, it's a hard question to answer. I think I had a friend in seventh grade, I kind of grew up with a single mom, we didn't have a lot of money. There's one week we didn't have enough money for groceries and he actually bought, with his own money, we were in seventh grade, he bought us groceries.

And I just kind of always thought about that. He didn't have to do that, he was totally looking out for me obviously and it was one of the nice things anyone's ever done for me and I just kind of try to have that same "give it back" sort of mentality in everything that I do.

Patrick (00:59:55): I love it. Simple, powerful story and a good reminder to us all. So Turner, thanks again for all your time today and for everything that you've taught us.

Turner Novak (01:00:03): Awesome. Thanks for having me, looking forward to the next one.