

Electrons and Atoms

A friend recently asked me for my list of current breakout companies. I made it, and noticed that all of them had only one thing in common. I then went back through the last three YC batches and looked at our top-ranked companies (although we get it wrong plenty of times, it's reasonably predictive). These companies had the same trait.

This shared trait is a connection between the online and the physical worlds. There are two main models for this—the Uber model, where you push a button on a website/app and something happens in the real world, and the Airbnb model, where you use a service to do something in the real world that would be possible but extremely inefficient. In both cases, the key thing is enabling users to do things they do in real life much more easily—yes, you could have called a cab company, but it took a long time, the cab didn't always come, you didn't know when it was near, you had to have cash or get a nasty look from the cabbie, etc.

Even Facebook is a lightweight version of this—with Facebook, you bring your real world online so you can interface with it more often, more easily, and from anywhere. Facebook has obviously been much more successful than services like SecondLife, which were entirely virtual, and services MySpace, which were less about real identity and real friends. Amazon was perhaps the original example of bridging these two worlds.

As a corollary, new companies that exist only in the real or online world do not seem to do as well as companies that connect them. This happens more often on the online side than the physical side, both because we generally don't think of things like barbershops as startups and because most people don't expect pure hardware companies without a strong Internet component

to do very well. And this bridge is often a matter of degree—many, if not most, online companies touch the real world in some way. But the ones that do it the most seem to be doing better.

In many ways, this is a version of Marc Andreessen's "software is eating the world". To eat the world, you have to operate in the world. I think two big reasons it's happening so much now are 1) smartphones are in everyone's hands and 2) there is a level of personal comfort with putting real life on the internet that seems to have tipped about two years ago.

There are probably a lot of areas where this doesn't apply—enterprise software and developer tools, for instance—and there are clear counterexamples like Google. But as a general rule, it seems to be worth considering when thinking about new businesses.