URL: https://stvp.stanford.edu/blog/videos/free-is-alive-and-well

Are VC's fearful of open access and giving away great technologies? Tony Perkins, CEO of AlwaysOn, asks ThinkEquity Founding Partner Michael Moe and Founder and Managing Director of Draper Fisher Jurvetson Tim Draper if they are fearful of free and open and its possible loss of profits. He cites iPhone applications as an example of great ideas with no clear vision on monetization. Draper explains that free tools are a necessity of viral marketing. In addition, the panel reviews the sales of mammoth online clients – Hotmail, YouTube, Skype, and possibly, Twitter – worth billions of dollars without a penny of revenue, thought to pay for themselves with their dynamic marketing impact.

Transcript

Tony Perkins: So just on the iPhone platform itself, there's a whole.... Tim Draper: New marketplace.. Tony Perkins: ...new marketplace of brands waiting to happen and get Draper money and take off.. Tim Draper: Yeah.. Make it different enough.. Make it something that the iPhone's never been used for.. And that's something that we might consider.. Tony Perkins: It was interesting, I just had dinner in Tahoe with a guy who worked as the head of the iPhone group for several years.. And was known as being the father of the iPod.. That was his idea, so he says..

Anyway, he was just talking about what even Apple.... Tim Draper: His name was Steve Jobs.. Tony Perkins: No, it's not Steve.. Michael Moe: Success has made much a failure as an orphan.. Tony Perkins: It just shows you that one man doesn't necessarily think of all the good ideas, although we all love Steve.. But what he was saying is Steve is really a PC generation guy.. He is the father of the PC generation.. And even he, when you look at the stages of the iPhone, had to be dragged kicking and pushing to open up the iPhone to new apps.. So think about it.. The most fun that you have on your iPhone today is finding cool new apps that radically change your life..

And make them better and make you find things quicker and entertain you and the whole thing.. So I thought that was an interesting anecdote but again, it plays back to this idea that there's a generational change here.. And "open" seems to be the operative world.. Now, "free" is also in there somewhere and for guys that want to make money, "free" is a scary word.. But viral marketing is free marketing which is good because it means lower expenses.. But are you guys worried about free and open hurting the top line at all? Tim Draper: I think free is a great way of marketing your product.. You have to get it passed a certain point before you are a valuable commodity in general.. In general, people don't really want to pay a lot more for those little iPhone games.. They want to try them for a while and then spread them to their friends.. And then when they get out there - and free really works if you interconnect..

If it's more of a network kind of thing, where if I send it to you, you send it to your friends, they send it to their friends.. That kind of thing works really well for something that's free.. Free works well in that way that you know it's going to spread.. Free for something that isn't going to spread, that people are just going to buy, is a lot tougher.. I think that's a lot tougher.. So I think to create viral marketing you have to think in terms of it goes from you to your friends, from their friends, to their friends, to their friends.. And it spreads with a geometric progression.. And that's where free really matters.. Tony Perkins: Hotmail, they've got a great viral marketing.. It was the first radically viral brand but you never generated revenue..

But yet you sold to Microsoft for $400 million or whatever it was.. YouTube, same thing.. It's now I think, the number one site on the Web, right? But still there was really no revenues associated, yet they sold to Google for $1.3 billion.. So do you get excited.... Tim Draper: The why? Tony Perkins: I know why.. Because people overpaid.. [Laughter] Tim Draper: I would disagree.. I think people underpaid because for a couple of reasons.. Think about Microsoft's marketing budget.. It's, I don't know..

Would you know? Hundreds of billions? Michael Moe: It's not hundreds of billions because that's more than their revenue, but it's a lot.. Tim Draper: $50 billion.. It might be $50 billion.. By buying Hotmail they got one of the greatest marketing vehicles in the world for a simple $400 million.. So it was like a one one-hundredth of their marketing budget and they got this incredible thing that reached now up to 500 million people.. That was a huge steal.. In fact, if you ask Bill Gates what was

the best acquisition he ever did, it's Hotmail.. Michael Moe: Yes, absolutely.. Tim Draper: And I think Google's best acquisition was YouTube, and for a similar reason.. When they paid $1.4 billion for it, they calculated that it was worth $14 billion in advertising revenue to Google..

So not just the marketing but how it moved up the scales, how it moved up the Google ranks, how people would pay more, they'd be online more, all that stuff.. It ended up being worth $14 billion to Google.. So it's interesting.. You can build an enormous business that doesn't have any revenue, as long as there is a partner that you could do a deal with, that can take advantage of what you've built.. Michael Moe: I just saw when Twitter got funded at a $250 million evaluation, it has zero revenue.. So free is alive and well.. Tony Perkins: And I've got to bring up Skype because it ties into our Stanford thing here.. Tim funded Skype, I don't know how many years ago.. But at our Stanford Summit with STVP, we gave Skype Company of the Year.. And Tim and Niklas Zennstrom, the founder, beamed into Stanford at 8:00 in the morning from Estonia right after a board meeting so that they could accept the award for the Company of the Year..

And that was the first public showing of Skype video which has basically changed most of our lives.. And that was another company that sold for billions of dollars that had no revenue...