



THE WORLD OF FLYING FUNDING

THE NEW FACE OF VENTURE CAPITALISM IS GEEKY—AND GLOBAL

BY **RON GLUCKMAN**
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TWO YEARS AGO, when Silicon Valley mingled with Beijing at CHINICT, an annual China tech conference, the buzz sweeping Beijing was an appearance by hotshot investor Eduardo Saverin, billionaire co-founder of Facebook. When Andrew Garfield plays you in a movie (i.e., *The Social Network*), the groupie factor multiplies: Saverin arrived in a limo, bodyguards protecting him from throngs of techies.

UNLESS YOU ARE IN THE **STARTUP CIRCUIT**, CHANCES ARE YOU'VE NEVER HEARD OF **MCCLURE**, WHO IS MORE LIKELY TO TURN UP ON GAWKER THAN IN *GQ*.

Yet the biggest fireworks were generated by a much less assuming guy in flip-flops, the mouthy guy who enjoys giving his own industry the back of his hand: Dave McClure. "While there are definitely the success stories such as Facebook and Twitter and others," he says, "the fact of the matter is most things fail, most startups fail, and *most venture investors suck!*"

McClure, 48, is regarded by some as the James Brown of startups. Short and balding, the bespectacled guy with 235,000 Twitter followers hardly evokes comparison to the Godfather of Soul—until he hits the stage. Then, he turns into a fiery showman, espousing his unconventional strategies in his signature colorful language.

Unless you are in the startup circuit, chances are you've never heard of McClure, who is more likely to turn up on Gawker than in *GQ*. His Facebook page lists him as "founder and troublemaker at 500 Startups." On LinkedIn: "Geek, Marketer, Hustler, Investor, Dancer, Blogger, Troublemaker, and Sith Lord" (think Darth Vader). Yet he's blasted to the top of venture capital (VC) charts as the founder of 500 Startups, a plucky VC company based between San Francisco and Silicon Valley. The firm is increasingly expanding overseas, which is why he spends six months of the year on the road. In addition to a Mexico City office, McClure recently opened an office in Beijing in 2013 and another in Malaysia.

As the name implies, the firm, founded in 2010, has a mission to fund a vast number of startups. The goal isn't simply to get in quickly, but to carefully seek the best ideas and nurture investments to sizable profits. Past bets include MakerBot (acquired for \$400 million by Stratasys) and Wildfire (gobbled up by Google for \$350 million). His strategy, harshly written off initially, is now widely copied. Data firm CB Insights charts the top VC firms; 500 Startups debuted in 2011, ranking third in unique investments. Since then, 500 Startups has topped the annual chart.

McClure's résumé gives credence to his goal. In 1994, he founded his own IT firm, Aslan Computing, later acquired by Servinet/Panurgy. He was a consultant and programmer at Intel and Microsoft, and he's facilitated Silicon Valley successes like PayPal (as director of marketing) in 2001, and in 2005 helped launch Simply Hired. The concept for 500 Startups came together by 2007–2008, he says—exactly the wrong time to talk investments, given the global economic meltdown. Instead, he joined Sean Parker, founder of Napster, later president of Facebook (Justin Timberlake in *The Social Network*). From 2008 to 2010, McClure honed his skills, managing early-stage investment for Parker's Founders Fund.

In 2012, only two years after starting his company, McClure had funded 300 startups. Investment geared up so fast, he isn't even sure when he hit 500, but last summer, the tally topped 800. And McClure, now raising \$100 million for his third and largest fund, isn't slowing down for a nanosecond. "When we first started, people thought it was a little crazy," concedes McClure. "But it doesn't sound crazy now. It sounds almost tame."

AMAZINGLY, MCCLURE MANAGES one of the smallest funds surveyed. Number two last year was Andreessen Horowitz, a \$4 billion VC colossus. McClure works his magic with vastly smaller sums, maximizing results by focusing on outfits and ideas that aren't on anyone's radar. And most fail.

But he's philosophical about failure. McClure compares 500 Startups to *Moneyball*—he's a fan of the Oakland A's baseball team featured in that Brad Pitt film. "We don't have to swing for the fences every time. In fact, that's definitely not our

strategy," he explains. "Our goal is to have consistent performance, not occasional home run performance." And he can get things wrong. Most notably on Uber, the hot transportation networking startup, which he passed on twice. Also Airbnb. "I made the wrong call and didn't invest," McClure says. "Travis [Kalanick, co-founder and CEO of Uber] asked me twice, but I totally messed that up, so that was definitely my mistake. Airbnb wasn't that obvious, but I had the chance to invest in them both and I screwed up both of them."

Overseas investments form 20 percent to 30 percent of the firm's portfolio, he says, "and we'll probably dial that up over time." In particular, he's bullish on Latin America and South and East Asia. Harshly critical of his industry, McClure says trepidation about overseas investment is understandable, not only due to language and legal difficulties. "The U.S. market is very large, so deferring foreign investment is not necessarily an error—in the first year or two. But if you aren't looking at global investment in the first five years, that's a mistake."

This is what gives teeth to McClure's global perspective: Several times a year, he enlists dozens of investors for jet-set tours across Latin America, Asia, Eastern Europe, or the Middle East. The initiative is called, aptly enough, Geeks on a Plane. The VCs then make the rounds of entrepreneurs in several cities on each tour, forging partnerships and sometimes group-funding. It's both competitive and collaborative. On a summer swing through Southeast Asia, 500 Startups invested in new businesses in Thailand and the Philippines. "It's really a lot of fun," McClure says, "almost a life-changing experience for many people who come on the trips."

The on-the-ground impact is enormous, says Pranay Srinivasan, CEO of Sourceeasy, an online apparel manufacturing platform in India. Sourceeasy took off in early 2013 when a Geeks on a Plane passenger became the first customer of the startup. Sourceeasy later expanded through the 500 Startups accelerator program, which nurtures new companies.

THE ACCELERATOR PROGRAM is a key to McClure's success, the secret sauce goosing the odds in so many high-risk investments. While

other VCs prowl hack-a-thons, picking a few promising startups at a time, McClure cultivates a creative greenhouse. Out of more than 1,000 applicants, two dozen or so fledgling startups are admitted to programs in San Francisco, Mountain View, and now Mexico. Those accepted get seed funds, generally \$50,000–\$100,000. In return, 500 Startups takes a stake, usually under 10 percent.

The goal of all VCs is to get a sizeable return when the startup goes public, or is sold. McClure's vision has been to maximize the potential by grooming entrepreneurs in 500 Startups culture, with seminars, advice, and consultation over a four-month period. "His network and content strategy is extremely well thought out," notes Cyril Ebersweiler, a high-stakes VC operating from the southern Chinese IT center of Shenzhen. Ebersweiler met McClure in Shanghai on a Geeks trip.

"I agree with the network effects he is pulling off via events," he says, and "to some extent to the spray and pray strategy—with educated guesses." In particular, Ebersweiler praises McClure's accelerator program, which is far more comprehensive than most incubators. Of McClure's style, he chuckles: "He never backs off from things that look completely impossible to pull off."

"What Dave is doing really goes against the grain of what practically everyone else is doing," says Richard Robinson, an entrepreneur from Boston who is a serial startup man in China, where he's often worked with McClure. "Startups love him. He's on the side of entrepreneurs. The strategy isn't totally proven yet, but I believe in it. Dave is fearless—he says a lot of stuff that can upset people, but don't get hung up on the language."

"While there are a lot of seed investors in the market today, Dave has created quite a brand with the geographic breadth of what he is doing," says Jeff Richards, a partner at GGV Capital, a Silicon Valley firm with a \$625 million fund focused on the U.S. and China. "We're huge fans of the rapid rise of seed stage capital available to entrepreneurs around the world—and people like Dave have made it considerably easier for great entrepreneurs to attract the kind of startup capital required to launch the next Facebook, Baidu, or MercadoLibre." ●

BY THE NUMBERS:

2010
YEAR MCCLURE
FOUNDED
500 STARTUPS

500
GOAL NUMBER OF
STARTUPS
TO BE FUNDED

800+
ACTUAL NUMBER
FUNDED

**\$50K–
\$100K**
ACCELERATOR
PROGRAM
SEED FUNDS

