WINNING WITH DATA

TRANSFORM YOUR CULTURE,
EMPLOY YOUR PEOPLE,
AND SHAPE THE FUTURE
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Contents

Introduction ix

Chapter 1  Mad Men to Math Men: The Power of the Data-Driven Culture 1
Operationaizing Data: Uber's Competitive Weapon 2
The Era of Instant Data: You Better Get Yourself Together 4
Data Supply Chains: Buckling Under the Load 6
Management by Opinion: The Illusion of Knowledge 8
Our Vantage Points 10

Chapter 2  Four Problems with Data Today: Breadlines, Obscurity, Fragmentation, and Brawls 15
Data Breadlines for the Data-Poor 15
Data Obscurity: The Failure of the Card Catalog 17
Rogue Databases and Analysts: The Data Fragmentation Problem 19
Data Brawls: When Miscommunication Devolves into Arguments 21

Chapter 3  Business Intelligence: How We Got Here 23
Business Intelligence Is Born: The First Query 23
Databases for the Masses: Oracle Commercializes Codd's Invention 24
Legacy BI: A Three-Layer Cake 26
Google’s Answer to Huge Data:
  Vanilla Boxes 27
600 Petabytes per Day: HiPal at Facebook 30
Extreme Data Collection: The New Normal 32
Looker: Weaving the Data Fabric 33

Chapter 4 Achieving Data Enlightenment: Gathering Data in the Morning and Changing Your Business’s Operations in the Afternoon 37
Not Just Another Person with an Opinion 37
Aligning Sales Teams in Real Time 48
Scaling Sales Teams with Data 50
Determining Customer Satisfaction at Every Point in the Buyer Journey 52
The Rosetta Stone: Developing a Shared Data Language 55
The One Equation That Defines the Business 57
Brutal Intellectual Honesty: Speaking Data to Power 60
Putting Pride in Its Place: How Data Transforms Cultures 66

Chapter 5 Five Steps to Creating a Data-Driven Company—From Recruiting to Regression, It All Starts with Curiosity: Changing the Culture 71
It All Starts with Curiosity 71
Why You Should Stop Listening to Your Boss 72
How to Recruit Curious People 76

Chapter 6 From Hacks to Harmony: The Typical Progression of Data-Driven Companies 83
Step 1: Ask Your Friend, the Engineer 84
Step 2: Bastardize an Existing Solution 84
Step 3: Access Raw Data 85
The Crux of the Problem 85

In \textit{Creative Capital}, Doriot biographer Spencer E. Ante summarized his interviews of former Doriot students:

\begin{quote}
“His lectures were so memorable and controversial—he once lectured students on how to pick a wife—that many former students who have forgotten most of what they learned at business school still remember Doriot vividly.”\footnote{S. E. Ante, \textit{Creative Capital: Georges Doriot and the Birth of Venture Capital} (Boston, MA: Harvard Business Press, 2008), 3.}
\end{quote}

A sinewy 5 feet 10 inches tall, with incisive blue eyes, a thin mustache, and a penchant for fine tobacco to stuff his iconic pipe, Doriot was highly decorated by the U.S. military. In 1940, he became a U.S. citizen to assume a military post created for him by a former student, Major General Edmund Gregory. Appointed lieutenant colonel and chief of the Military Planning Division, Doriot managed all the procurement for the U.S. Army, from trucks to uniforms to rations.

In the jungles of Southeast Asia, indigenous forces easily tracked American infantryman by their footprints. Unlike the barefooted
natives, Americans left boot outlines as they marched through mud. So, Doriot contracted an anthropologist to develop molds of the feet of the locals and manufactured boots with these imprints on the soles. “If you ran down a muddy road you’d swear that was not an American, it was a native,” remembered Lieutenant Colonel William H. McLean.

In addition to these tactical advances, Doriot and his team resolved large-scale logistical problems that supplied the Allied Forces with the ammunition, nourishment, and equipment to fuel their success. Doriot was ultimately promoted to brigadier general, received the Distinguished Service Medal (the highest U.S. military metal given to a noncombatant), rose to the rank of commander of the British Empire, and was awarded the French Legion of Honor.

After the war concluded, Doriot continued to change the world. In 1959, he and three of his students from Harvard Business School founded INSEAD (Institut European d’Administration des Affaires), the preeminent business school outside the United States.

In addition, he is widely regarded as the father of venture capital. His firm, American Research and Development (ARD), led the first institutional venture capital investment of $70,000 in Digital Equipment Corporation (DEC), maker of minicomputers, in 1957. Eleven years later, DEC went public and netted more than $355 million to ARD, for a 5,000-times return and an internal rate of return (IRR) of more than 100 percent annually. Among other notable investments, Georges Doriot financed the first company of future 41st U.S. president George H. W. Bush.

American Research and Development’s success launched the venture capital industry. A cottage industry through the late 1990s, venture capital exploded in size and impact during the dot-com era.

In the 1980s, venture capital firms in total raised roughly $10 billion per year. During the height of the dot-com era, that figure catapulted to more than $100 billion adjusted for inflation. Since

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then, in the course of a typical year, venture capitalists raise more than $25 billion to invest into technology, biotechnology, and other kinds of startups.

And the innovation fueled by this capital has transformed the world. FedEx, Google, Intel, Apple, Tesla, Genentech, Bed Bath and Beyond, Whole Foods, Starbucks, Uber, AirBnB: Is there an industry venture-backed startups have not yet disrupted? According to a recent study completed by Stanford researchers Ilya Strebulaev and Will Gornall, 43 percent of U.S. publicly traded companies founded after 1974 have been venture backed, accounting for 63 percent of the total U.S. stock exchange market capitalization. Further, 38 percent of American workers are employed by venture-backed businesses, including 82 percent of research and development employees.\(^6\)

But, to hear my senior partners tell the story of the heyday of venture capital in the 1990s is to envision a completely different industry than the one we operate in today. One old-time venture capitalist recounted the ways of the bygone days: The 10 or so key members of various firms would eat lunch together on a weekly basis. Like trading baseball cards, they would swap information on the companies they’d seen and decide to invest with each other or not. The capital requirements of these startups outstripped these early funds, so they partnered to ensure the business would have enough runway to achieve success.

Of course, these syndicates competed. But even then, it was friendly. Whoever won the right to lead the series A, the first institutional round, would invite the firm that lost the opportunity to invest in the next one. However, this quid pro quo environment evaporated when the sums of money flooding the industry treated stiffer and stiffer competition from new and existing venture capital firms.

The secular increase in competition has continued over the last 20 years as the scale of technology companies has skyrocketed. Google is now worth nearly $500 billion. Facebook is worth $250 billion. And we venture capitalists chase the next one. The competition drives firms and partners within those firms to develop competitive advantages,

and in our business that means information asymmetries, and that means data and relationships. The firm that finds the next breakout company first will often win the right to invest in that business.

There are many different means for venture capital firms to establish that information asymmetry. Some of them develop unique relationships with key angel investors, individuals who invest in very early-stage companies, with just two founders and a dream. Other firms rely on strong relationships with universities and professors who refer standout students to investors. Yet others specialize, focusing on financial services technologies or consumer subscription businesses.

At Redpoint, we have tried to develop an information asymmetry using data. That initiative started almost a decade ago.

I started at Redpoint, a venture capital firm headquartered on storied Sand Hill Road in Menlo Park, in 2008. During my first week, I remember receiving a thick envelope in the mail from the National Venture Capital Association (NVCA). The envelope contained the NVCA’s directory, a thick tome listing all the different venture capitalists across the country. They numbered more than 5,000. Looking out of my office over the Santa Cruz Mountains, I despaired; how would I ever differentiate myself in such a competitive industry? “What would Doriot do?,” I wondered.

I was very fortunate to work closely with three of the six Redpoint founders, Geoff Yang, Tim Haley, and Jeff Brody, three preeminent venture capitalists who financed billion-dollar businesses like Netflix, Juniper Networks, and HomeAway from their earliest days, and advised those businesses as they transformed huge industries. Over the next few years, they mentored me extensively, and boy did I need it.

As I started to attend board meetings with these senior partners, I began to realize how little I actually knew about startup management. Sure, I could help them with their Google advertising strategies. But founders would ask questions like “How much should I pay a VP of sales?” or “What is a reasonable cost per click on Google?” or “How fast will the business have to grow to be able to raise the next round of capital?” I was at a complete loss to answer these questions. I hoped no one in the room noted my silence.

But I knew, from my days at Google, this data must exist somewhere. So, each time a founder asked me a question about
his business, be it revenue per employee benchmarks or marketing efficiencies compared to publicly traded companies, I searched for data.

Once, I found a data set containing startup IPO data dating back to the very earliest days of venture capital that Jay Ritter, a professor at the University of Florida, collected. Startups were surprisingly willing to share their internal data in surveys—anonymously, of course. So, I surveyed them. Friends working at investment banks showed me how to access the data reported by publicly traded companies.

Armed with those data sets and others, I began to answer the questions posed by founders, using the basic statistics ideas I studied in college. The data proved useful to a few of the CEOs I knew, and they asked me if they could share the data. Of course, I agreed. And one of them in particular suggested publishing the results on a blog.

I bought the tomtunguz.com domain, selected a simple blogging layout, and began to write. I jumped when 15 people read my first post. Fifteen daily readers grew to 100. One sunny summer day, I watched as my Google Analytics account reported 1,000 people had visited tomtunguz.com. In disbelief, I called my wife. All those hours spent on nights and weekends writing were finally showing some promise. That night we celebrated with some champagne.

Over the spumante, my wife asked which topics garnered the most interest. I didn’t know the answer. So, I began to study the factors that attracted readers: title length, the number of subheadings, the presence of images, voice and tone, time of day to publish, and many others. I learned quite a bit.

I have 48 seconds with a reader. No pretty images, no witty title, no amount of social media validation from influencers will entice the reader to linger. Tweets sent at 8:54 to 8:59 A.M. Pacific Time generate 25 percent more views than those sent a few minutes after 9 A.M. But e-mail subscribers prefer to read content around 10 A.M., a nice midmorning break. Would e-mail readers like to read posts after lunch?, I wondered. A two-week experiment showed they most certainly did not! Open rates fell in half.

As I had done before, I published most of my findings and readers contributed experimental ideas. Over time, this iterative effort grew readership to more than 100,000 readers per month and more than 200,000 social media followers.