

## THE SILICON MAFIA IS A MENTALLY ILL GROUP OF FRAT BOY SOCIOPATHS

In middle school, my teacher assigned a book by Mario Puzo called “The Godfather.” Yes, it was pretty epic. From that work of art, mass audiences were introduced to Don Corleone and eventually its derivatives; Goodfellas, Bugsy, Capone, Casino, Heat, The Departed, and scores of other pieces that romanticized the notion of organized crime across the globe, a world of big bosses, willing soldiers, and internal codes of helping out each other, from family to family.

One reason I believe the Valley is so enamored with these types of groups is because individual stars emerge from an organization that go on to become more influential and powerful. And so, in the world of the web, the term “mafia” has also caught on, albeit in a much more positive way. This has all been written about before. The premiere group is the “PayPal Mafia,” which lumped together incredible minds to form one of

the world's most important companies and whose alumni are now founders and/or financiers of some of the most disruptive new technology companies today. The other important mafia hails from Facebook (which [Sarah Lacy](#) has [chronicled brilliantly](#)), where early employees have gone on to found Quora, Asana, Path, and Cloudera, among others, and who have also quietly provided angel funding to some of the most interesting new startups (and perhaps even acting as limited partners in other investment funds). Facebook liquidity approaches for many more employees, which will only deepen its impact.

Which leads me to speculate where the next mafia could emerge from: Twitter.

It's a bit early, but Twitter has the makings for the next "family." At the moment, Facebook is in a significantly stronger financial position and set to go public this year. Twitter's future is less certain, but as a loyal and heavy user for three years, I am extremely bullish on Twitter and believe it's currently undervalued economically today despite the kinks it needs to iron out. That's an

argument for another post, but for now, I believe Twitter alumni have a terrific chance to form the next Valley mafia. We are at the early stages of this, but as the first few flocks of early employees and the founders start to move on, they are already spreading their post-Twitter wings and are in a position to exert a good deal of influence, both financially as well as in the formation of new businesses.

To begin, some well-known leaders at Twitter have gone on to found new companies or to make a nest on Sand Hill Road. Former PM [Josh Elman](#) is now [investing with Greylock Partners](#), though he also has membership in the LinkedIn and Facebook mafias. [Mike Abbott](#), a former VP of Engineering with Twitter, is now investing as a General Partner with Kleiner Perkins. [Alex Payne](#) has gone on to start [Simple](#), a highly anticipated startup focused on banking. [Jeremy LaTrasse](#), who was at Twitter from the beginning and logged four years in ops for the company, is now a co-founder and CTO of [Message Bus](#). [Kevin Cheng](#) founded Incredible Labs and is working on a new product

called [Donna Anamitra Banerji](#) is currently an [EIR with Foundation Capital](#), perhaps mulling over his next thing, and [Abdur Chowdhury](#) left to start a new school in San Francisco, [Alta Vista School](#).

And of course, there are Twitter's three founders, and early employee [Jason Goldman](#).

Obviously [Jack Dorsey](#) is still at Twitter but also leading [Square](#), as well as being an early investor in ultra hot startups like Kickstarter, Instagram, Flipboard, and Foursquare. The other two founders, [Biz Stone](#) and [Evan Williams](#), have returned to the lab that created Twitter — [Obvious Corp](#) — and brought with them product extraordinaire Jason Goldman as a third founder. The group has been somewhat vague so far about its ambitions to date, but we now have an early peek at a potential strategy, as the group is closely tied to Lerer Ventures and has invested in Caterina Fake's [Pinwheel](#), incubated [Lift](#), and most recently [Branch](#) (formerly know as Roundtable).

Along with their product knowledge, wealth, and broadcast influence through creating Twitter, we

may start to see these early Twitter stars begin to flex their muscles as an entirely new mafia in fascinating ways. Though it remains to be seen if Twitter will generate the type of wealth that PayPal and Facebook will, the early alums are a good indication of the diversity of talent within Twitter HQ today. Simply living through the fires that the company has survived will toughen present and future alums for bigger risks, and their intimate knowledge of Twitter strengths and blind spots could help them and others chart more precise courses as the ecosystem grows and widens. Only time will tell if Twitter will join the ranks of PayPal's and Facebook's mafias, but if the recent past is any indication, there's a great chance we'll be using the term "Twitter Mafia" more regularly.

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YouTube, LinkedIn, Tesla, Yelp. Silicon Valley is known for networking and creating ecosystems in which entrepreneurs who have studied, worked and socialized together stimulate innovative enterprises that, in turn, go on to spawn others.

In all of that storied realm, however, the group who founded and

launched PayPal may be most emblematic of that sort of success. And the four now famous companies mentioned at the top of this post were established by PayPal alumni.

But the most important reasons for that sort of success are often lost in the hazy foundation myths that tribes like to tell about themselves. What makes the PayPal story so interesting to those who were part of it may not contain the most enduring lessons for the rest of the world.

The PayPal guys, as the following article explains, believe that their culture and technological innovations were what made them so astoundingly different. And one part of that seems right: that they started from the notion that they should be friends and that their success would hinge on those stronger personal and emotional bonds makes eminent sense. It must be noted, however, that PayPal personified the downsides of Silicon Valley's white male 'brogrammer' culture - and some of its founders have continued to be that entitled attitude's most outspoken defenders.

Yes, some of the tech architecture was revolutionary, though as many have learned through painful investment in mind-boggling IP lawyers' fees, the question of who did what first is not always as clear as those involved are prone to believe.

But what may have been PayPal's most distinctive feature is one that it rarely mentioned, possibly due to some lingering sheepishness or defensiveness on the founders' part. That its fundamental purpose, its reason for being and the core to its success was, first and foremost, not about better technology, but about how to get paid. JL

*Conner Forest reports in Tech Republic:*

PayPal was the template for the modern Silicon Valley startup

The "PayPal Mafia" is no mafia at all. It's a diaspora.

"Basically, we were kicked out of our homeland and they burned down our temple. So, we were scattered to the four corners of the globe, and we had to make new homes."

That's how David Sacks, former COO of **PayPal** and current CEO of **Yammer**, described it. The ominous "they" in this story is **eBay**, and eBay is partly responsible for both the success of PayPal and why the founders walked away from it.

It's a pretty rare occurrence that a startup will make it from inception to exit. What is decidedly less common is that startup reaching an **exit upwards of \$1 billion dollars**. Yet even more extraordinary is that exit becoming the catalyst for a revitalization of a local economy and a specific type of investing.

Despite astronomical odds, this is what happened when

PayPal sold to eBay in the summer of 2002 and the PayPal team members went on to found some of the most important startups -- and make some of the most **strategic investments** -- of all time.

The PayPal Mafia -- a term that's used with affection and awe in Silicon Valley -- is defined as the Mountain View PayPal team either pre-IPO or pre-acquisition, depending on which founding member you ask. While those may seem like vastly different stages in a company's life, it's more like splitting hairs as PayPal's IPO happened only a few months before it was acquired. Former PayPal CEO Peter Thiel estimates the PayPal Mafia to be around 220 people. The PayPal Mafia does not include 700 person customer service operation that was running in Omaha, Nebraska at the time.

"Basically, we were kicked out of our homeland and they burned down our temple." *David Sacks*

That group of 220 people went on to create seven distinct "unicorn" companies. Unicorns are companies with a valuation of more than \$1 billion. Two of those seven companies were valued at north of \$10 billion. Those companies are:

1. **Tesla Motors** - \$27.5 billion market cap
2. **LinkedIn** - \$20.4 billion market cap
3. **Palantir** - \$9 billion value (private company, estimate)
4. **SpaceX** - \$7 billion value (private company, estimate)
5. **Yelp** - \$5.26 billion market cap



6. **YouTube** - \$1.65 **billion acquisition**

7. **Yammer** - \$1.2 billion acquisition

For comparison's sake, the Google employee equivalent number would be around 20,000 or 30,000. Of those Google employees, the number of unicorn companies is harder to pinpoint. Thiel estimates that only one to three unicorn companies have been produced, with none close to a \$10 billion valuation.

If Google's unicorn companies are estimated at two, that means that PayPal got 3.5 times the result with 1/100 of the people. In other words, PayPal's success rate relative to billion-dollar companies is 350x that of Google.

So, what was in the water at PayPal?

## FIRST STEPS

In late 1998, Max Levchin, Peter Thiel, and Luke Nosek founded Confinity (formerly FieldLink, Inc.). Thiel and Levchin met at Stanford University after Thiel gave a guest lecture and the two began to work together on the concept of a digital wallet. The **company** initially focused on **mobile payments** sent from **Palm Pilots** and other PDAs, but a Confinity employee eventually developed a way **to send money** transfers through email. That service became PayPal in 1999.

After gaining traction and taking its first few steps on the eBay platform, Confinity merged with Elon Musk's X.com, taking the parent company's name. Eventually, after proving its success as a product, the company adopted the name PayPal, Inc. in the summer of 2001.

PayPal's early story was unique in many ways, but especially with respect to the people behind it. "When we started PayPal, I remember one of the early conversations I had with Max [Levchin] was that I wanted to build a company where everybody would be really great friends and, no matter what happened with the company, the friendships would survive," former PayPal CEO Peter Thiel said. "In some ways that was very utopian. We didn't only hire our friends, but we did hire people that we thought we could become really good friends with."

Many of those friendships began at Stanford. Keith Rabois, David O. Sacks, Reid Hoffman, and Ken Howery all

attended Stanford around the same time and most were subsequently recruited by Thiel to work for PayPal. Max Levchin recruited some developers and former classmates from the University of Illinois at Urbana-Champaign as well. What's unique is that the majority of the early PayPal employees, and the PayPal Mafia in general, were all recruited through a friendship network and not by a headhunter. Sacks said that these people were "cut from the same cloth." This, he said, explained how they all had such a strong entrepreneurial focus to begin with.

Having a top shelf team didn't keep the PayPal team from running into problems, however. In fact, PayPal's story, and the success of its employees can, in part, be traced back to a certain set of problems and solutions that were faced by the team early on. Some of the main problems it faced included:

- Consumer adoption
- Fraud
- Regulatory problems
- Hostility from Visa and Mastercard
- Competition from eBay

"You could almost say that we saw every major problem that a startup would encounter, so people got experience dealing with all the types of you would run into," Thiel said.

"They weren't easy to solve, but we figured out ways to solve them."

Those problems produced pressure, and the team had to

respond to that pressure. Instead of allowing it to crush them, the PayPal team used the pressure as leverage to maintain what former executive vice president of business development Keith Rabois called "maniacal focus."

"We didn't only hire our friends, but we did hire people that we thought we could become really good friends with." *Peter Thiel*

"It was a very intense environment, so there wasn't a lot of time and energy devoted to thinking about the future; as opposed to making sure our ship didn't sink, and defending the ship," Rabois said.

That pressure also produced diamonds. Sacks said that PayPal became the first to implement many features that are now commonly included in new startups:

1. **One of the first viral apps:** PayPal users were able to send money to someone without an account, forcing them to open an account to claim their money.

2. **One of the first companies to use a platform strategy:** Sacks said that PayPal was "essentially an app on top of eBay."

3. **One of the first companies to offer an embeddable widget:** Users could put the PayPal payment logo onto an eBay auction. Embeddable content later became key for YouTube and was a big part of how it grew.

4. **One of the first companies to rely on an iterative product strategy:** Features were released whenever they were finished, not at the mercy of product cycles.

PayPal also differentiated itself in its company culture. Rabois described the culture as "confrontational" and said that ideas for the company were allowed to rise through informed debate.

Outside management hires were rarely brought in. Instead, employees were promoted from within and often the leading employee of a department became the head of that department. For example, the designers would all report to the lead designer, who was thought of as the best designer. Job candidates with newly-acquired MBAs were often rejected for job positions because they didn't seem flexible enough to handle the iterations.

"I think, in many ways, PayPal was the template for the modern Silicon Valley startup," Sacks said.

For example, the infamous original Facebook developer motto was "**move fast and break things**," which shows that the concept of agility and an iterative product strategy have permeated startups in the Valley.

While many of these practices may now seem commonplace, it's important to remember how different a place Silicon Valley was roughly 15 years ago. Rabois said that he often interacts with people now who assume that the way Silicon Valley is now is the way that it has always been.

"The most important thing to highlight, because I think a lot of people who are newer or younger don't understand, is how absolutely removed from all of the traditional

establishment we were back in the time," Rabois said. "We were a bunch of misfits. We were farther removed from the core of Silicon Valley as you could be -- ideologically, culturally, no connections whatsoever. And, what's interesting, is how, in a very short period of time, we went from extreme outliers to being the received official crowd in many ways."

PayPal was definitely a product of the dot-com bubble in some aspects. The company once boasted a burn rate of \$10 million dollars a month. However, the way that the PayPal team conducted business and ran their organization was like nothing the Valley had seen before.

Doing things in their own way paid off for the PayPal team as they were able to file for an initial public offering (IPO) in late 2001, later completing the IPO in February 2002.

According to PayPal's website the stock rose at more than 54% on the first day and closed at \$20.09 a share.

After the IPO, eBay users wore PayPal shirts to an eBay user conference in June 2002 to show the support of PayPal integrating with eBay. One month later, in July 2002, PayPal agreed to sell to eBay and the deal was closed that year.