Luca Ferrari - Luca's Edit

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Scarlett 2i2 USB: Welcome to 20 VC with me, Harry Stebbings and I'm so excited for the show. Stay. This guest is the founder of the most incredible success story in tech that very few have ever heard of. Bending spoons and Italian company that has scaled that product suite to over 500 million downloads. A hundred million monthly active users are reported 380 million in sales in 2023 and a valuation of 2.2, $5 billion.

Absolutely insane. Plus for the majority of that life, they will bootstraps. This is such an [00:01:00] incredible story. I'm so thrilled to be joined state by their co-founder and CEO, Luca Ferrari.

But before we dive into this incredible discussion.

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You have now arrived at your destination.

Harry: Luca, I am so excited for this. I think Bending Spoons is one of the coolest stories that we've seen in recent times in startup land. So first, thank you so much for joining me.

Luca: Thank you for having me. It's a pleasure.

Harry: Now, I would love to start with a little bit of context. What would your parents and your teachers have said about the young Luca growing up?

How would they have described you?

Luca: Well, parents are probably not a good source. It seems to me they tend to be biased. I would say my teachers probably would say that I was incredibly shy. Some may even say I was pathologically shy, weird and gentle. I think I was considerate, kind of a very careful not to hurt [00:04:00] people's feelings.

Harry: I would have been described as weird too. Can I ask, did you feel like an outsider when you were growing up? I didn't have many friends at school and it shaped a lot of how I do what I do.

Luca: Yeah, probably. I really wanted to, to make friends. I couldn't for the first probably 10 or 12 years of my life. I had major struggles socially, not, I'm incredibly well versed with, uh, socializing these days, but I definitely improved a lot. I guess you could say an outsider, but an outsider who wanted to be an insider.

It was an outsider because it was incompetent, uh, at, uh, being part of, uh, people's groups.

Harry: Sorry for this weird tangent. Would you say you've become an insider or you just accepted being an outsider?

Luca: Now, I think I had different phases. So I was by, you know, your definition of trolling outsider initially who really wanted to be an insider. Then I became. You know, uh, kind of average. So make it an insider. Like I started having friends and being invited to doing things [00:05:00] with others. And then as I grew older, particularly the last five or six years, I think I've become a little bit more of an outsider again, Because I find my bandwidth and my patients have become more limited or perhaps have been tested more aggressively.

And so I've learned to build more walls and more protections.

Harry: One of your friends told me one of your points for improvement could be a willingness to accept more dinners and social events. So maybe they were maybe they were onto something. I would love to start. I heard that you were at McKinsey and you were essentially sharing your salary with your co founders to fund the early days of bending spoons.

Can you just take me to that? And those early days of bending spoons. So tell me a little bit about that.

Luca: That's almost true, but I would say it wasn't Bending Spoons. It was another company called Evertale, which I founded before finding Bending Spoons. It only lasted for about two and a half years. So that was a failed startup. Pretty, you know, by the book failure. And I had two co founders there and all three of us also, you know, [00:06:00] founded Bending Spoons plus two other

Harry: Well, I didn't know that. What did you learn from the failing of that company? I think we learn a lot from failings. What did you learn from that failing? Okay.

Luca: Well, many things, I would probably say two in particular. One is the importance of building a good team. At the time we were quite naive and superficial in that regard. And the second one was to be very thoughtful as to what you build or more broadly, what you do and why.

we had this idea and we just thought we were right. Arrogantly. Got into execution mode and of course we crashed and burned and, you know, you can still crash and burn even if you're thoughtful, but your odds are better. So I would say we learned to do our homework a lot more and iterate more and faster.

Harry: How did bending spoons come to be then? So this company failed and the three of you went and go, Hmm, what now?

Luca: Yeah, so connecting to your previous question. So the three of us, we started it. We didn't have any money. We had this agreement whereby we all three of us would look for a job and then whoever got the most [00:07:00] lucrative job would work and pay for food and rent and the others would work full time. And then once we.

We get uh an investment or some sort of ability to do without the financing from the person working You know that this person would join full time So I I ended up getting this offer from McKinsey I told them before accepting that, you know or as I accepted that I Meant to work and start a part time and then resign as soon as we hopefully got this investment.

And they, I thought it would kick me in the ass and tell me to go away. Uh, but they were great. Actually, they told me this is awesome. And we love the ambition and this works for us. And so I worked there for about a year, I think a year and three months, give or take. And then I was working, uh, nights and weekends.

And my vacation also on, uh, on Evertail. I like to joke that once I joined full time, I made it fail very quickly. we immediately pretty much started bending spoons, on the ashes of, uh, of that startup.

Harry: Can I ask what was the insight with bending spoons? It was a straight off transition to founding bending spoons. What did you believe? What did you [00:08:00] see? What was that opportunity set? Transcript.

Luca: usual path. You have an idea for a product, you focus on building that. You hope it finds a fit with the market, it grows and you're successful and the rest follows. We took the opposite direction, as in we focused on building a platform of technologies, know how, company culture, employer brand.

Fully optimized, not for launching a product or specifically a technology product, but acquiring a product that has shown a fit with the market, but where we feel there is a, some, you know, substantial untapped potential. And then we, we work to try to unlock that additional potential.

So that's a very different approach. We let. Others seek market fit and then we, if they will sell it to us, we will acquire their company and try to make it even better than they have made it up to that point. The reason why we took that route, I think is precisely because we crashed and burned by being arrogant in thinking we knew what the market would want and we could build it for them.

And it turned out we were wrong. [00:09:00] And so we decided to see whether a different direction was more efficient for us.

Harry: Can I ask a weird question, which is how do you determine what has product market fit or enough signal to be interesting? Because things can be volatile, things can be transient, short term. How do you determine whether an asset has enough signal to be interesting to partner with?

Luca: The assessment process is fairly sophisticated, but you know, the very simple way of summarizing it is to say we like a user base, a customer base, a recognizable brand, or good positioning in a distribution channel,

Harry: What was the first product and how did you acquire it given you didn't have funding or money?

Luca: The company we founded it with around 40, 000, which was the leftover capital from Evertail and then the venture capital firm at the time preferred to sell their, the money would have been theirs because. They had, uh, liquidation preferences to be pretty typical for a VC deal. And for them, [00:10:00] it was more of the hassle of going through the liquidation process for 40, 000 and paying for lawyers and all that.

And so they sold their shares to us for, I don't know, a euro, I think, or something. And then we liquidated. And then we found that with a different group of people, as I mentioned, the same three founders plus two employees, we had that Evertail, we found that Benny Spoons, the first product wasn't, wasn't an

I think the first two or three were not, were very simple apps. The first one I remember, cause I coded it myself with one of my co founder co founders, I think it was called Fonzi. It was very basic fonts app. We built it in like a few days and you know, neither of us was an expert, a software engineer. So.

long story short, I think we made around the 10, 000 in all time revenues from that particular app. Uh, launch Snatter one or two. Maybe one slightly more successful, maybe made a hundred thousand dollars from it. But soon enough, we, made our first acquisition, I think early 2014. So we're talking maybe six or seven months into the startup at the time.

And it was for a keyboard [00:11:00] app, paid 15, 000 for it. And, uh, we managed to make it grow a little bit. And then we invested the proceeds into. Building, team and learning a few more things and building some in house tools bought a new, a new you know, high potential, larger app, rinse and repeat, compounding all those things over a decade now, I mean, we're going for 11 years in a few months, we've gotten to a much bigger scale.

Harry: Luca, when did you know that you had something? When did you sit down with your other two co founders and go, hmm, this is working. We have enough signal.

Luca: so on the one hand we were pretty confident early on, but it was mostly based on some observation and first principles, we didn't have a track record. On the other hand, I tend to be paranoid by nature. So I always second guess myself and wonder if there isn't some huge risk lurking in the shadows.

So I don't know. I never, not even today am I massively confident. So I think our level, at least my level of confidence, I can't really say for the others, but has more or less. Remained [00:12:00] between decent and good, but it was never super high or super low for, for the whole of this decade.

Harry: Do you think that's a European mindset? And I don't mean that rudely, Luca, but I spend so much time with us founders and it's just, we're going to dominate from day one. We're going to change the world. It's all going to work. Do you think that's an inherently European mindset of being much more even?

Luca: So I don't know, I would say the level of ambition has been wild since the beginning. We pretty much day one. I remember I was sending emails to people we wanted to hire, and it was really honestly, so that our goal was to be one of the best companies of all time. One of the largest, most admired and positively envied.

I mean, of course, ambition is quite subjective, at least from my perspective, as high a level of ambition, almost as you can have. So we didn't lack ambition, but yes, maybe we were not bullish about our ability to get there, uh, which might be European trade.

Harry: In terms of the bootstrapping nature, why did you decide to bootstrap? You were three very smart guys. I'm sure you could have raised. Why did you in those kind of [00:13:00] in between periods 2014 to 2019, why did you not raise?

Luca: I guess you can always raise, but I don't know that we could have at sufficiently appealing terms. Consider that we were three people with a failed startup behind us. Uh, building a technology company in Italy, which had a.

Negligible VC scene and attracted absolutely no interest from international, venture capital firms with a strategy that was, as far as I can tell, unheard of to this day, I don't really have a comparable company. I mean, there are, of course you can come up with examples, but nothing that's really spot on, like what exactly what we do.

And so we felt our likelihood of attracting capital at sufficiently appealing terms was very low to this. You have to add. We really wanted to build this with a. multi decade decade view and we felt that it was quite dangerous to relinquish control so early. Of course, we would have done it had the terms being sufficiently appealing.

And lastly, we could afford not to. I mean, that's a big factor. If you, if you are building a business that's losing money and you [00:14:00] expect it to lose money for, for a while, then there's no other way, right? For better or worse, we had a model that, uh, you know, maybe it was more, it's not the fastest growing model.

We never grew By 300 percent in a year ever, you know, like, so it was more of steady pace on the flip side. We were cashflow positive early on, at least we, you know, we made it so, and so we could afford not to raise.

Harry: How would you respond to me saying it's like a PE model, buying distressed assets, potentially turning them around and having a rollout play? Is that wrong?

Luca: I would say yes. and I would say the main differences are the private equities. Typically they focus on, finding sufficiently cheap financing. And then making some relatively high level improvements and then make a profit a few years down the line.

In our case, we are incredibly hands on. So unlike a private equity, we rewrite the whole software or at least the most critical parts of the of the code base. We completely change the IT architecture. We. redesign the [00:15:00] user experience and the user interface. Uh, we add lots of features, remove other features, revise, uh, the marketing and monetization dramatically.

It's almost like as if we built a product to launch it, but we do so on the foundation of an existing customer base or brands or incredibly hands on. In fact, if you look at us, you know, private equity in their team, they will have almost all of the people will be, investment managers for lack of better word.

In our case. Out of 400 people, at least 300 are software engineers, AI researchers, data analysts, data scientists, a product manager. So we are a product and technology company operationally speaking, but we do have a second soul and it's the capital allocation soul, which is the soul of a private equity.

So we're, I think we're a hybrid. It's almost like a private equity. Had a baby, baby with Google or something like that. You know,

Harry: chat.

Luca: metaphor I can come up with. Some people have characterized it that way after Evernote, because Evernote, some people thought would qualify as such, but we have [00:16:00] acquired a lot of products that were on the way up.

Some that were flat, some of them were on the way down. We really don't have an opinion in that regard. It just, we just need the price to be right and the opportunity to improve the product to be significant enough.

Harry: Can I ask you in terms of capital allocation, how does capital allocation and bending spoons work? Because you have, you know, several different products, um, you know, meet up, you have Evernote, you have Remini, you have a lot. How does that work? Is it like cash sits in TopCo and then is allocated by you into sub products?

Luca: Yeah, the cash is managed at the top company level. Yes. Uh, not just that, all resources also are team members. Uh, you know, we were very fluid in that regard. the principle is simply to apply our resources to the next most valuable opportunity. So We will ask ourselves the question, if we were to allocate our resources, both capital and the talent we have available to this product or that product, based on the backlog of ideas we have to improve the product and the marketing of the product, where would these resources unlock the most value on a per unit [00:17:00] basis?

And of course, that's an assessment that remains, fairly noisy. that is the principle we try to implement in practice.

Harry: Do you ever kill projects?

Luca: Yeah, absolutely. If we feel that it's not working. I remember one particularly we built a few years ago that cost us a lot. I think we invested six or seven million dollars in it and we, we, we completely eliminated it.

Harry: Whoa, talk to me about that. That's unbelievable.

Luca: Yeah. So that was, um, four years ago, give or take, it was called Play Yond. And the vision was to build a kind Netflix of mobile games. So Netflix, not, not in the sense of streaming, but in the sense of, uh, You pay one subscription, you have unlimited access to basically as much content as you can possibly consume.

We built a team, we licensed the many games, 50 to a hundred games, some of which pretty significant games on mobile, uh, and the licensing was quite expensive. And we built an app for the user to be able to subscribe and then access the library of games. That's exactly the case of us thinking, okay, [00:18:00] this is, this cannot possibly fail.

Because it's such a good deal. There's plenty of players spending hundreds of dollars a month to try many, many different games. Most of which are pay upfront. You don't even know if you like it in the end. And we only ask for, you know, we had different price points and we tested all sorts of things. But, you know, even the most expensive monthly subscription was maybe 10 or 12 dollars.

So relatively inexpensive for someone who looks to play maybe a one hour per day. That's a very good value for money. And, but it never flew. the KPIs were terrible. We could never make it work. And then roughly at the same time, Apple released, uh, Apple Arcade, which, uh, is almost the same thing. And we were like, Oh my God, this is so unlucky.

But you know what? I think it really didn't play a role in our product failing. Arcade is not a great success either.

Harry: No, it's not. But what did you learn from that failing? I'm intrigued again there.

Luca: Well, I think it reinforced the lesson we had with the every tail startup. I mentioned earlier that we feel we have to be intellectually humble when it comes to our ability to predict what the market will [00:19:00] want, particularly when it comes to very new things. And if you're replicating, say, something that works in the U.

S. and you do the same in Germany, I think you can be more sure that it will work. Still not certain, but it's more likely to succeed. But if it's something very new, and at the time, to my knowledge, what I just described was unique, I'm sure someone will have seen something similar and now claim I'm uninformed, but based on our research at the time, there was nothing like it.

Uh, certainly not a mobile. And so when it's something so new, the likelihood that you are delusional as to the chances of success is pretty high. So I always suggest lower the odds in your equation. Assume you're being positively biased toward your idea. The truth is probably worse than you think it is.

Harry: can I ask you then if we switch tax? Because that's like creation of a product. And again, thinking that you can create product market fit with a new one. If we then switch, I'm sorry, you must be really fucking bored of hearing it. But then you switch to Evernote, which is a very well known [00:20:00] brand.

And a very significant customer base. What was the thinking around that acquisition? Because I just call a spade a spade. People were like, that's a turnaround. The brand is going down and declining. But you saw value there. Can you talk to me what you saw that others didn't? And how you thought about that acquisition?

Luca: Well, I don't know what others saw in it or didn't see in it. We thought we could, uh, improve the product, monetize it more efficiently, and also run the company more efficiently in terms of costs. So we felt all three, uh, levers were offered a little bit of space for improvement and so very excited to acquire it and work on it.

It's also, I won't deny it. it's particularly exciting to exciting to be able to work on something that is so relevant. Sometimes people have a characterized

Evernote as, as you said, on a decline, and it can be true in some ways, but it's still as used or more used than a lot other brands that people think are more successful or cooler.

And I don't want to name names, but. Evernote is [00:21:00] very important. I mean, there are millions of people who have built their professional workflows on it and use it every single day and have thousands upon thousands of notes. So it was very motivating for us to be able to at least try to make it better.

And I think we, we have, we've done the team. I haven't done much, but the team has done a lot of work in that regarding just one

Harry: How do you think about pricing these assets? Because, you know, I'm in early stage venture where we all lie and say that price doesn't matter where it still does matter, by the way, but price really matters when you're you, how do you price these assets?

Luca: The theory is simple. Uh, now applying it successfully is difficult. Before you were asking me, how are you different from a private equity? And I said, the biggest difference is that we are incredibly hands on product technology operators. So it's not just a financial play. The other big difference is that we acquired to hold forever.

We never sell, I won't say it will never happen. It may occasionally, but it's, it's never happened to any of our significant assets. And so we, we buy to retain for. [00:22:00] Potentially decades. The, the way we value these assets is consistent with this. We don't speculate as a private equity typically would on what the, you know, price earnings multiples or EBITDA multiples could be once I sell it in four years.

You know, we literally just look at, um, free cash flows. So we project free cash flows for as far as in the future as we can. And so it's an IRR NPV calculation, uh, that informs our willingness to pay a certain price. Again, that's a financial theory that's pretty straightforward. The difficult part is how do you project that accurately?

That is devilishly difficult, of course.

Harry: And the hard thing is you've got to make the seller want to sell at the price. And actually, you know, it's like secondaries today, which is there's a big chasm between what the buyer is willing to pay and what the seller is willing to sell at. How do you find sellers? A response to your pricing analysis.

Luca: So we, we don't really convince anybody to sell. These people are always adults, generally highly competent, intelligent professionals who have their own clear [00:23:00] view of value. What we try to do is be quick and decisive in determining our price. We try to make an offer that's not a bluff. It's an actual very good offer and close to the maximum we are reasonably willing to offer.

if they don't like it, we, we walk away. But historically we have never. A process, meaning every single time there was willingness to sell and we had a chance to bid because sometimes you don't get to know about the opportunity and you only hear about it after the deal is done every single time.

To my knowledge, our offer ended up being the highest. one reason to be, we're terrible negotiators. Uh, another reason is because of our model and being so operationally involved and trying to improve. The product, the operations, the marketing, the monetization, everything. So deeply, it's a lot of work.

You don't scale it as quickly as buying just from a financial point of view would, but you can unlock more efficiencies and therefore you can offer a better price.

Harry: I'm a venture investor for my sins. I [00:24:00] quite enjoy financial engineering. When you think about like the weight of capital, how do you finance the acquisitions? Is it on like raised capital now? Obviously you've raised is it on debt capital that then you have very low cost of capital on?

How do you think about efficient use of cash for acquisitions?

Luca: So that's certainly, uh, it's pretty, you know, common playbook, uh, equity for sure. Most of it has been, uh, retained earnings. We have raised. I think a remarkably little equity relative to our financials and our valuation but really up until Evernote included, which is a year ago, I can on first approximation, I can say that all of what we have done, we have done through our own earnings and debt prior to Evernote, we had raised a little bit of equity, but it was.

Almost immaterial in the grand scheme of things. Now, more recently, we have raised more equity, uh, roughly 200 million over the past 10 months, but again, I think most of it is our own cash flows and that

Harry: When you think about the deals that you've done, have you mispriced any and in the ones that you mispriced or [00:25:00] misjudged, what did you not see that you should have seen or would you like to have

Luca: there hasn't been a single one. We have priced correctly. Thankfully we have made, uh, Mistakes in both directions. So sometimes things went better than we thought. And sometimes they, they went less well. Probably the most significant problem or, or error we've made in particularly from the, the downside negative point of view has been to project future rates of user acquisition.

Too optimistically of all the important KPIs in determining the success of a product, I would say rate of user acquisition is the hardest to project accurately by a huge margin, it's happened multiple times. At least once we were way too optimistic with that and the.

Ultimately the returns from the acquisition turned out to be much, much worse than we had anticipated.

Harry: Why is rate of user acquisition so tough? I'm sorry to ask, but they tend to be quite baked assets. You've got historical data. You've got very baked customer acquisition channels. Why is [00:26:00] it so variable and volatile to predict? Thank you very much.

Luca: I think it depends on a few factors. One is it depends on more drivers than other key inputs to the success of a product. And these drivers tend to be outside of your control. More than a driver's the heart behind other key factors basically if it's an equation you have more variables and you control them less and so your ability to then Force the future the direction you want it to go When you make a mistake there, you generally didn't have a, an opportunity to, to fix it.

Whereas in other cases, maybe you thought something you could, you could achieve something and you thought it would be easier. It turns out to be harder, but you can't go the extra mile, allocate a few more resources. Somehow you get there. But if the rate at which you're acquiring users isn't where it needs to be often, there isn't much you can do.

I mean, you can spend more in advertising, but you're going to lose money. Otherwise you would be spending it already. Right? So the problem is you can't find ways of acquiring [00:27:00] users efficiently. And that has to be the end of it.

Harry: Do you find scale network effects? And what I mean by that is given the portfolio of products, there's, uh, cross promotion, referrals, the ability to increase one's

Luca: No, not a factor. Maybe it's because we, we, we have failed to leverage it. But, um, no, no value coming from that.

Harry: in the one that worked out really well, what were the lessons from that? We spoke about kind of the challenge of predicting user acquisition in the one that went to the upside. What was the lesson from that?

Luca: Yeah, there are some small tactical lessons. the bigger lesson is acknowledging the incredibly high, uh, level of unpredictability of some of this and bake in appropriate, safeguards, particularly a sufficiently large margin of safety.

So that when you are wrong, as long as you're not massively wrong, it doesn't destroy you. Maybe you won't be happy with that investment, but it doesn't destroy you entirely and you can move on to live to fight another day as they say.

Harry: How do you build margins of safety? Is that in diversification of product lines? Is that [00:28:00] in pricing?

Luca: Well, that helps. Yeah, probably want to do it both on the individual, let's say capital allocations, for example, an acquisition, but the same concepts would work. If you allocate capital in R and D. Marketing because, you know, that's that that is still cash. It's no less real than if you buy a company. So you probably want to bake in a good margin of safety as you do that.

And then naturally, if you have a broader portfolio of initiatives, whether it's multiple products like we do, or. You know, multiple R and D projects, then you're further protected statistics are on your side, but risk assessment and mitigation is a fairly complex topic. I think we could talk about it for hours,

Harry: What do you know about risk and risk mitigation today that you wish you'd known 10 years ago?

Luca: assume you're not as smart as you think you are. The issue here is that most people who end up making significant capital allocation calls,

Generally, those people they wouldn't be there if they hadn't been somewhat successful. By most measures, sometimes, [00:29:00] academically and then professionally, but at least professionally, right? Otherwise, it's unlikely to imagine that someone will be managing 50 billion dollars or, you know, a scale up or billions if that's the case, it's very easy to.

Think too highly of yourself and that is very dangerous the moment you think you're very smart The likelihood that you make very dumb mistakes skyrockets in my opinion now You need to retain a little bit of self confidence. Otherwise, you won't make any moves, but I think a healthy level of second guessing yourself, assuming you're biased in favor of your ideas, that you're lazy and don't want to look into a certain risk factor because you know it's going to take you 50 hours of grinding through benchmarks and analyzing data.

You should assume that's the case and adjust your aim accordingly.

Harry: Luca. When did you take too much risk on an asset too much that you shouldn't have taken.

Luca: Oh, I mean, it's difficult in hindsight, you know, it's, it's like if you play a hand of poker, it's quite dangerous to assess whether you played it well based on the results. So [00:30:00] I'm thinking based on what I knew at the time and what I could have possibly known, one that's obvious to me, we did buy this app.

I'd rather not. Mentioned it by name, but, um, a pretty significant product. We've made the mistake I mentioned earlier. We were quite bullish that our projections of user acquisition rates were conservative. And I think we were a little bit lazy in really studying the underlying factors driving user acquisition historically.

We just looked at it in aggregate and a bit naively. Had we done our homework more thoroughly, I think we would have spotted that some of the underlying factors were waning. And that, consequently, the rate of user acquisition was likely to, to shrink, faster than we had anticipated because we had actually projected it to decline, but not nearly fast enough.

That's certainly a case where I feel I'm not very proud of the way we handled ourselves. I think we did a mediocre job there.

Harry: Did it change how you do it?

Luca: definitely. Every year. So we. We try to spend an hour reminiscing that particular [00:31:00] situation, a repeated retrospective. We have dissected our mistakes ad nauseum. So it's not that we're going to learn anything new, but I think it's healthy to remind yourself just how lazy and dumb you were at some point.

So you don't assume you have become hardworking and smart all of a sudden.

Harry: I did love your humility. can I ask you on the flip side, was there a time when you didn't take enough risk and you're like, come on, Luca, you should have done more that we could have been more aggressive.

Luca: I think it's probably one of my greatest shortcomings as an entrepreneur and manager, I feel I'm too concerned, scared, even of disappointing others, colleagues, investors. And as such, I believe we have waited a little bit too long to raise capital. We've waited a little bit too long to push, you know, on the accelerator to implement our strategy, the fastest speed we were capable of.

I feel. Our level of caution has been generally speaking excessive. I think had we been more aggressive, we would have made more mistakes. But overall, I believe we would have created more value for our share owners, our [00:32:00] colleagues. You can't really AB test life. And so maybe it's not the case, uh, who knows, but that, that's my read in hindsight.

Harry: Okay. I Do you care?

Luca: Unfortunately, yes, that's the second. It's part of the, I was just mentioning, I'm too concerned about disappointing others. I don't think I want others to think highly of me. I don't think I'm egocentric in that way, but it really bothers me if they hate me or think poorly of me.

So it's more like the. The downside that I, or the negative end of the spectrum that really annoys me or frustrates me, the, I don't necessarily seek to be on the other end of the spectrum and be praised, but, but I hate it when they really don't like me. And that's a major handicap in, in my role.

If you've many of the best CEOs, they don't give a shit to a fault. Even I think it's a superpower to have. I've tried to be more resilient, emotional in that regard. Over time, I've gotten more fatalistic and You grow a thicker skin, you know, when you get criticized a lot, then at some point you either die or, or, or give up or grow a thicker skin.

So I've been [00:33:00] able to grow a thicker skin, but that's an issue for sure for me.

Harry: I was walking in the park with a friend of mine, who's the founder of a 20 billion business. And I was moaning about something and he was like, Harry, shut up. Your job is to get punched in the face 50 times a year and just get That's life as an entrepreneur, like get on with it. My question to you is, what do you tell yourself when you do get punched?

When you do get that hit down, what does that voice in your head say?

Luca: I think I'm very self critical to a point where maybe it's unhealthy. I wouldn't recommend that necessarily to others. I don't think it's part of my character to give up. Now, at least in the situations I've been so far, because there's always something harder. And maybe there is a point where you break down, but I don't think I can claim to have to have gone through, you know, the truly difficult things in life that some people have to go through my, my challenges have been business related, which I find are frankly, luxury problems to have, you know, I've been in the situation where I was complaining to particularly to other people in similar situations.

Roles but in hindsight I think it's irritating that [00:34:00] people like you and I complain about these sort of things because we really are privileged I mean come on We we were born and raised in somewhat affluent countries and and clearly had a chance to try our hand at this Things that are certainly not now terrible.

I mean, it's a privilege to be able to do what at least what I do I think you probably feel the same way about what you do So maybe we should just probably just take a step back and have a laugh, you know the real problems in life are Not these ones

Harry: Absolutely not. The life of a venture capitalist is brutal, Luca. We are positively, uh, suppressed as a class of people. Uh, no, I completely, I completely agree with you. Um, my grandfather, I, Found out like 7 an hour shoveling gravel on a golf course at 82. And I was like, you know what? A little bit of perspective is important.

I want to touch on

Luca: And there's worse than that. I mean, that's the thing. That's not even as bad as it gets, you know? So

Harry: I do want to touch on the people around you because so many people told me about the talent density that you [00:35:00] built. And you mentioned before to me about talent and motivation density. It's quite a specific use of words, actually. It's not like, oh, we have great people. What did you mean by talent and motivation density?

Luca: yeah, I think so. We built a framework internally to describe exactly these sort of things. But the short of it is that three important components are talent, which is how good you can be. Then there is experience, which is the cumulative exposure to relevant. Experiences, which will help you based on your talent, unlock your potential.

And then there's motivation, which is kind of a multiplier factor going from zero, let's say to one where based on how much you care to be great in that particular context, you'll do better or worse within the range determined by your talent and experience. It's a trade off when you hire people, you can say, I want to hire for experience, talent, motivation.

You can, but, You're going to do worse at any one of these than if you focus on just one or two. In our case, we chose to focus on talent and motivation. Almost entirely disregarding experience. Experience we can provide, [00:36:00] talent we can't. Motivation we can try to create the conditions for it, but you don't change what someone wants and cares about.

And this is the way in the long term we have the best team we can.

Harry: Let's just unpack those, like, talent. What does that mean, and how do you test for it? Is it raw skills? And how do you test for them?

Luca: We try to test people as much as possible, practically and measurably. We have come to be wary of interviews, at least the more traditional unstructured interview where. The interviewer will just ask a bunch of questions and then tell you how they feel about the candidate.

We felt we, we discovered that is not a good predictor. And so we try to have practical tests or at least tests that, simulate, uh, or require the underlying abilities that the actual job, uh, will require.

And we try to go more toward general problem solving abilities than, as I said before, acquired knowledge. So we're fine to have someone who doesn't know the things as yet, as long as they show us that they have the. Work ethic, the ability to learn the right [00:37:00] teamwork mentality to then be great at our company.

Harry: So that's talent. Motivation? How do you test motivation?

Luca: need to try to understand what triggers the person in a good way. What are the factors which, when present, Drive the person to really give their best.

with recruiting like The goal is not to be perfect. It's just to be less bad. And so it's not that we are great and all of a sudden can predict what gets people to, to be as motivated as possible. We just aim to be a little bit better than most companies and a little bit better than we were yesterday. And I think we have improved substantially, but it's still wildly inaccurate, our prediction, but better.

that's worth something.

Harry: What have been the biggest mistakes you've made in talent identification and hiring?

Luca: Too many to count, but I would say broadly speaking, the biggest one. Was to assign too much weight to experience in that trade off. I mentioned earlier, ultimately, if you assign a lot of value to experience, you get someone who's more valuable immediately or early on, but then [00:38:00] because you you've had to trade talent and motivation potential.

Off for more experience. You'll have a lower level of contribution in the long run. And we saw that quite clearly, that I think we did that a little bit too much,

Harry: In terms of density, how important is it for you that people are together, that there's a physical co location?

Luca: We have seen that, uh, working together physically tends to correlate with, higher perform levels of performance. It's really hard to tell whether that's because people are in the same place on site, or it's a consequence of the fact that people who are intrinsically more motivated about working at the company or doing what they do, they also want to be with others because if you really care, you typically tend to want to be where the action is.

And so it's simply that it's self selected. That sample, but we have incredibly high performers who work remotely all the time too. It's just on average, slightly less probable. Our decision has been to fully support remote work

some of our best performers are working remotely. Almost entirely remotely or completely remotely, but we do pay a price for that. [00:39:00] It's not clear cut. When a company decides to only do onsite, I don't feel I can say it's a stupid move. I could see how that could ultimately prove to be the right move.

For us, it's kind of toss of a coin. We're not sure. So we, we just keep all options open. And again, we're very happy with our remote colleagues. They are great. And again, some of them are some of the best colleagues we have.

Harry: Do you pay remote different to normal? Standardized pricing is a hard thing to get in terms of remote talent, depending on where they are, different prices.

Luca: Currently, we have the same salaries, regardless of where you are.

Harry: being in Italy and in Europe, I suffer from this assumption too, but a lot of our American friends and counterparts say, oh, you, you lack the ambition. The young people don't live to work, they work to live. Do you agree with that assumption on Europe? I know it's a general statement, but do you think it's fair?

Luca: I don't think anybody should live to work. I, I don't know that you should even try to make a distinction between life and work. You know, life includes work, includes play, includes love, includes [00:40:00] exploration, includes sorrow, happiness. So I think they're just on two different dimensions and it's just illogical to compare them.

But having said that, I don't have a lot of certainties in life. But this is. One of the strongest opinions I have, and that's that if you want to have a chance to be the best or one of the very best at what you do, not only do you need to be very talented, whatever talent means for relevant to that particular pursuit you have, but also you need to work your ass off for a very long time in a competitive world.

This seems pretty straightforward to me and I've seen it, proven out with a track record of almost a hundred percent in, in the people I've seen being great at what they do, it is very rare that they haven't tried very hard to be great for a very long time. So that's my general appreciation for hard work.

I don't think it should be imposed on anybody. I don't think it's either morally good or morally bad to want to try hard to be great. I think it's really arbitrary, whatever you want to do with your life.

Harry: forgive me if this is too direct. You feel like you're quite hard on yourself. People say the same to me. Do you ever give yourself a bit of a [00:41:00] break?

Luca: Maybe I am, maybe I'm not. I think, as I said before, I feel very privileged. I don't want to sound like I pity myself for being hard on myself. It's okay. I'm, I am as lucky as it gets. I have a big dream. I've been very fortunate to find and be found by amazing people. I love working and living, living with, I get to pursue my dream to be part of a team you know, with a big ambition, love my job.

And yes, it's, it's, it's a sacrifice including the hard truth of not being great at many things and trying to be better. I think I wouldn't want any other, any other way, to be honest.

Harry: Final one for you before we do a quickfire, but many mutual friends said I had to ask about your co founder relationship, saying that it's a very unique pairing. What have been some of your biggest lessons on what it takes to have a great relationship with your co founders in the way that you do?

Luca: If you were Italian, I would, I would tell you that it takes a lot of culo. You know what it means? So that, that translates to ass, like the body part. And it means a lot of luck, a lot of luck. but the [00:42:00] truth is I got lucky.

I had been friends, particularly with one of them for the longest time before. We even started the first startup. We went through, again, from the entrepreneurial perspective, quite a bit of hardship together, a failed startup in which we had poured our hearts and souls for multiple years. And the relationship didn't fracture, but actually got stronger in those Lowest moments, and that is the best proof that you have something to build upon.

Harry: How did you choose your investors? They're another form of partner, capital partner. How did you choose your investors?

Luca: Oh, I mean, it was easy. Nobody else would give us money. So we know. Sorry. I'm joking. I mean, there have been different moments in which we welcome new investors and the answer would change a bit. But for the sake of brevity, I will say we have. Some advisors we, we trust one, for example, is called Allen and company.

an equity MNA financing advisor from the U S excellent. you know, they know a lot of investors. They've seen them in different situations, particularly The shitty ones where you really see what sort of [00:43:00] principles they abide by, because it's easy to be lovely when you've been generating great returns, but it's a lot harder to be professional and fair when things aren't going that well.

So they provided us with a short list of firms they thought highly of. And then we, we had a few relationships. So we added a few names, that list, and then we went through. A process of they studying us, us studying them and talking to people who had them as investors for a long time and had difficult moments with them on board.

And ultimately, it was a mutual selection.

Harry: Is there anything that you would do differently about the fundraising processes having been through them? Different things on negotiation, on price, on length, anything that you would do differently?

Luca: Yeah. I think you want to create a certain level of competition. If you can,I'm very happy with investors. We have, we could have obtained better terms early on, and we could have closed faster. I would create a little bit more competition because often what they tell you, and they might actually mean it in the initial enthusiasm, you always hear, this is awesome.

We definitely got to invest. We're going to cover the whole round. You don't need to talk to anybody else. This would [00:44:00] be amazing. And then once due diligence starts. There's always a tendency to then commit a little bit less capital, try to walk back on a few of the key terms. And if you don't have any competitive tension, it's hard to avoid that from happening.

But if you have a reasonable amount of competitive pressure then, and you keep it up all the way to the end. Big mistake is to just base your selection on the early feedback and then wave goodbye to all those you don't plan to take on board only with the one or two that you plan to take on board, you shouldn't do that.

Just keep a broader spectrum of parties involved up to the very end when you're signing,

Harry: What's the immovable term for you? You mentioned terms that are important. Is there one that's like, Hey, no mass, not going to budge on that one.

Luca: Well, it changed, each time, but I would say one stayed the same throughout our rounds was liquidation preferences. All our share owners, myself, our institutional investors, our colleagues who got equity through their working at the company, nobody has any liquidation preferences. So we're all on equal [00:45:00] terms.

The reason why we fought very hard to avoid that, is we didn't want our colleagues who, despite our efforts to educate them financially, of course, are not as financially savvy as an investor. And unlike an investor, Which has maybe dozens or even hundreds of investments. Many of them bet their, metaphorically speaking, their house on the company.

We really didn't want to be in a situation where had things gone poorly, then everybody would be left empty handed, but, one or two investors. So that was something we really pushed against.

Harry: Well done. That's a good thing to be able to push against, and that's not an easy one with the scale of cash you raised. I do want to move into a quickfire, Luca, so I say a short statement, you give me your immediate thoughts. Does that sound okay?

Luca: Let's do that.

Harry: What have you changed your mind on in the last 12 months?

What

Luca: I should try to read as many books as possible. quantity. I wouldn't say is irrelevant, but not so important. What's really valuable is to select them well and try to read each and analyze each in [00:46:00] depth, really ponder You learn a lot more, it's a lot more useful that way.

Harry: three books would you most recommend to someone listening?

Luca: Our Mathematical Universe by Max Tegmark. I'd say The Selfish Gene by Richard Dawkins. And then maybe to go fiction versus non fiction, I would say A Gentleman in Moscow by Amor Towles.

I believe that's how you pronounce it. Wonderful, wonderful novel. Maybe the best novel read. One of the best.

Harry: I was going to suggest Venture Deals by Brad Feld, and so you have a lot more diversity than me, Lucas, so don't worry. Uh, some people tell me I need to get out of Venture. I probably agree with them. What does a day look like for you, Do you have a routine? I'm just intrigued, look like a fit dude.

Luca: I mean, I don't think I have anything incredibly surprising. I wake up around seven, seven 30, walk my dogs, go to the gym. I don't, you know, can run, maybe lift weights. I try to mix it up a little bit. then I have breakfast and read at the same time. That's my half an hour of, meditation,to me, reading and eating a light breakfast is really recharging.

And then I have [00:47:00] my, work day. I try to have a lot of time to do individual work. I think you'd be surprised by our few meetings and external meetings, particularly what we're doing here is quite rare for me. I maybe do two of these three per year, max. So most of the time I spend doing individual work.

We promote individual work a lot of the company at all levels. We want all of our managers to be incredibly hands on.

Harry: you not have direct reports that report to you, Luca?

Luca: Yeah, I do. I do. once, every two weeks. maybe it takes about five hours a week and then I have other meetings, but I would say I probably have no more than 20 hours of meeting a week I squeeze in maybe 40, 50 hours of individual work each week.

And then I try, tend to be done, uh, around maybe 8, 30, 9 in the evening. I spend an hour with my fiancee, with my dogs again. You know, maybe just chatting, watching a part of a movie, eating dinner, then walk the dogs again, read a book, fall asleep. Pretty simple.

Harry: Tell me, if you could choose one person as a board member, who would it be? Can be anyone.

Luca: Siddhartha, the fictional character from the book [00:48:00] by Herman Hesse. I think it'd be great as a board member.

Harry: most say Bill Gurley, so, you know, good that that works. That works for me. That works for me too. What's the biggest piece of BS advice that you hear most often?

Luca: The opinion I hear most often that I think is really poorly informed and poorly thought out is that artificial intelligence will create more jobs than it will eliminate. see, I might be very wrong, I'm quite confident that it will prove to be otherwise.

Harry: Destruction of jobs.

Luca: Yeah. If far in excess of job creation in the medium, long term, I don't know if it's a few years or a few decades, but I'm quite convinced of that.

Harry: an ultimate one, what's the kindest thing anyone's done for you?

Luca: Two friends from middle school or classmates, I told you it was almost pathologically shy at the time. They went out of their way to pull me out of my shell and teach me. How to socialize with others. for two kids of, 10 years of age, to do that showed a level of, I think [00:49:00] selflessness and maturity that I still remember today with incredible gratitude.

Uh, and it changed my life for real.

Harry: And you gave them 10 percent of bending spoons to thank them in gratitude.

Luca: I did not, but maybe I should,

Harry: Well, you know, it's a 230 million gift. I'd help you socialize more if that was on the cards. Final one for you, Luca, the most ambitious that you can be for bending spoons 10 years out. What is bending spoons then? if everything goes right.

Luca: I do think and hope we, we can continue doing roughly what we do. We like what we do. We think it has potential and we have fun doing it. I think we can do it at a much bigger scale. We can do it a lot better. And I hope that we have developed a level of competence and accumulated enough resources that we can increasingly find ways of making a positive difference.

I think it's quite difficult in business. Everybody talks about it, butit's very difficult. It's very few businesses that you can really say, you know, they're making a very positive difference. I don't think we, we make a very positive difference, nor do [00:50:00] 99 percent of the businesses, as far as I can tell, but I would like to be in a position to make that difference without a doubt, I love to see things like the Gates foundation.

It's very inspiring to me being able to tackle polio and almost eradicate it. That is incredibly inspiring to me. So being in a position to, to do something like that, maybe it doesn't have to be, charity can be many ways.

Maybe it's charity, maybe not, but have that level of resources and credibility and access to tackle some of those problems at that level. That would be a dream come true.

Harry: You mentioned that you do, you know, two or three of these a year. Thank you so much for agreeing to do this with me. I've long been an admirer of the model that you have. I've wanted to do it for a long time. So thank you so much for the time today, Luca.

Luca: Thank you, Harry. My pleasure and congrats on all you do.

Scarlett 2i2 USB-4: I just so loved doing that show. I think it is such an untold story of success. As we said, that 500 million downloads over 350 million in sales and barely anyone knows this company. It is an incredible story of success, which we should celebrate more. If you want to see the full [00:51:00] interview, you can watch it, of course, on YouTube by searching for 20 VC.

But before we leave you today,

Scarlett 2i2 USB-1: There's no shortage of helpful AI tools out there, but using the mean switching back and forth between yet another digital tool, what was supposed to simplify your workflow? Just made it way more complicated and less, of course, you're in notion, in notion you can automate the tedious tasks like summarizing meeting notes or finding that steps really freeing you up to do the deep work that we all want to do.

And that's why notion is used by over 50%, 50% of fortune 500 companies and teams that use notion San last emails cancel more meetings and reduce spending on tools. Try notion for free. When you go to notion.com. Com slash two zero. VC.

Scarlett 2i2 USB: Um, speaking of amazing products, like notion that I'd like to talk to you about a company called Digitas, they're a full service AI accounting company. And if you're in need of an accountant or looking switch, there's no better solution than digits starting at just $350 a [00:52:00] month, which is less than half of what you'd pay.

A traditional firm. Digits is the most accurate, most efficient solution on the market. They've developed proprietary AI technology that automates tedious financial tasks and delivers reports. So the actual close of the month, not two to three weeks later as always. And they also allow you to keep track of key metrics like revenue, burn, cashflow, and runway, and an incredible live dashboard.

The best part of all of it. This is vetted and signed off by their in-house CPAs. If you're interested, visit digits.com forward slash 20 VC to claim your special offer today. That's digits.com forward slash two zero VC.

And finally, travel and expense and never associated with cost savings, but now you can reduce costs up to 30% and actually reward your employees how well Navan rewards your employees with. personal travel credit every time they save their company money when booking business travel under company policy.

Does that sound too good to be true? Well, Navan is so confident [00:53:00] you'll move to their game changing all in one travel corporate card and expense super app that they'll give you 250 in personal travel credit just for taking a quick demo. navan. com forward slash two zero VC.

Scarlett 2i2 USB-5: As always, I so appreciate all your support now stay tuned. I think one of the best episodes we've ever done with Gilly run-on coming on Monday.