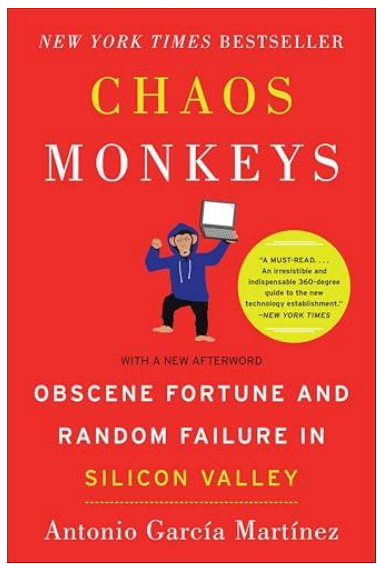




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Chaos Monkeys: Obscene Fortune and Random Failure in Silicon Valley

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Part One: Disturbing the Peace

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To paraphrase the very quotable Silicon Valley venture capitalist Marc Andreessen, in the future there will be two types of jobs: people who tell computers what to do, and people who are told by computers what to do. Wall Street was merely the first inkling. The next place where this shift would be seen at whopping scale in terms of both money and technology (though I didn't realize at the time) was in Internet advertising. And after that, it would hit transportation (Uber), hostelry (Airbnb), food delivery (Instacart), and so on. To take the theory further, computation would no longer fill some hard gap in a human workflow process, such as the calculators used by accountants. Humans would fill the hard gaps in a purely computer workflow process, like Uber's drivers. But we're getting ahead of ourselves. There's an additional lesson here. This shift from humans to computers took place predominantly on the equity side of things. The debt side of the financial world, for various reasons, still traded in what amounted to open-outcry markets with humans talking to one another, whether through phones or instant messaging systems. It was capitalism at the speed a tongue can wag or hands can type. This was mostly because a company's debt is complex and multifarious, and entities like General Motors have hundreds if not thousands of different types of debt floating around the world's trading floors. Briefly, they are not what economists call "fungible," meaning interchangeable the way quarter-inch screws or bottle caps are. Credit derivatives are different, though. Protection against General Motors' default is just that, a guarantee against a clear and one-time event. The only thing that varies, and even that in standardized time windows, is how long the policy lasts (e.g., three months or three years). To continue the car analogy, when an insurance company insures your jalopy, it doesn't take into account the infinite combinations of features, car colors, wheel rims, postpurchase modifications, and dangling air fresheners. It knows the make, model, year, and location of the vehicle, and the value insured. That's it. There are really only a few hundred types of car insurance when you break it down; likewise with credit-default swaps.

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This was a seismic shift that would affect everything about how we consume media, leaving publishers essentially powerless and at the service of the various middlemen between them and advertiser dollars, all in the name of targeting and accountability. If the publisher wasn't savvy enough to arm itself with sophisticated targeting and tracking before tangling with the media-buying world, then that world would come to them, in the form of countless arbitrageurs and data quacks peddling media snake oil. Which is why

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even august publishers like the New York Times live at the pleasure of the media supply-side technology, data management solutions, and advertiser technologies that ostensibly pay them. Of course, some very protective publishers like Facebook and Google, with unique media offerings, refuse to get arbitrated so openly, and to one degree or another, attempt to own the technical and business connection between them and the advertising dollars. This is how online advertising works: money turns into pixels and electrons in the form of ads, which turn into a scintilla of attention in someone's mind, which after a few more clicks and electrons shuffling about, turns back into money. The only goal here is to make that second pile of money as large as possible relative to the first pile of money.

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Part Two: Pseudorandomness

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Reid Hoffman, a large man, thundered like an emperor at the head of this troops, and spilled wonderful stories about the PayPal saga, the founding of LinkedIn, and going to war with Microsoft. He was by far one of the best speakers; you felt like kicking your way through a brick wall when he was done.

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Think about this in the context of more traditional industries for a moment. Chain restaurants like McDonald's have a best-performing outlet in a particularly busy high-rent district. Automakers have a particularly popular, bestselling model like the Ford Fusion or the Chevy Impala that makes their quarter. Google has the words "insurance" and "loans." Those are its flagship moneymakers. It is a tech empire built on snippets of words and phrases flitting through people's minds. You as a mere consumer don't see it, but how Google ranks keywords and runs the auction determines the fate of billion-dollar companies and industries. As the gatekeeper on buying interest, Google is the bouncer at the door of almost any Internet-enabled business today, and if you as the business owner don't pay your bouncer well, he'll shut you down, as Google has done more than once.

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Middlemen companies, like brokers on an exchange, offer sophisticated tools for those spending millions a year on Google keywords. Small businesses, though—the custom jewelry maker with an online store on Etsy, the local plumber—have no such tools, as Google’s crude tools are also too confusing for them, and the auction in keywords too dynamic. It’s as if the financial world had large investment banks like Goldman, but no Charles Schwab for the average investor to use. Since Google makes most of its money elsewhere, and in any case doesn’t have the patience or internal culture to create tools for small advertisers, the tools it does offer are dauntingly complex and ineffectual. The outstanding problem here is like the last-mile problem of an Internet service provider; some piece of technology is needed in order to travel from the fat-pipe fiber-optic cable to the home user wanting to stream Netflix. We would be that last link, allowing a mom-and-pop to finally spend money on Google, rather than pissing away some experimental budget and then getting burned out due to poorly performing keywords or ill-advised bids. We had plenty of competition.

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More symbolically, technology entrepreneurs are society’s chaos monkeys, pulling the plug on everything from taxi medallions (Uber) to traditional hotels (Airbnb) to dating (Tinder). One industry after another is simply knocked out via venture-backed entrepreneurial daring and hastily shipped software. Silicon Valley is the zoo where the chaos monkeys are kept, and their numbers only grow in time. With the explosion of venture capital, there is no shortage of bananas to feed them.

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