

# How the ‘PayPal Mafia’ redefined success in Silicon Valley

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**After its acquisition by eBay, PayPal's original team built unicorn startups, such as Tesla, LinkedIn, and YouTube. Their blueprint for explosive growth and scale forever changed the tech industry.**

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 former 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](#). 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 the 700 person customer service operation that was running in Omaha, Nebraska at the time.

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BY CONNER FORREST



Images: Jason Hines/TechRepublic

**After its acquisition by eBay, PayPal's original team built unicorn startups, such as Tesla, LinkedIn, and YouTube. Their blueprint for explosive growth and scale forever changed the tech industry.**

 **TechRepublic.**

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

1. **Tesla Motors** – \$43.5 billion market cap
2. **LinkedIn** – \$26.2 billion value acquisition
3. **Palantir** – \$20 billion value (private company, estimate)
4. **SpaceX** – \$20 billion value (private company, estimate)
5. **Yelp** – \$3.46 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 PalmPilots 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 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.”

“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 company to implement many features that are now commonly included in new startups:

- **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.
- **One of the first companies to use a platform strategy:** Sacks said that PayPal was “essentially an app on top of eBay.”
- **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.
- **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 back then. 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 that 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 a month. However, the way that the PayPal team conducted business and ran their organization was like nothing the Valley had seen before.

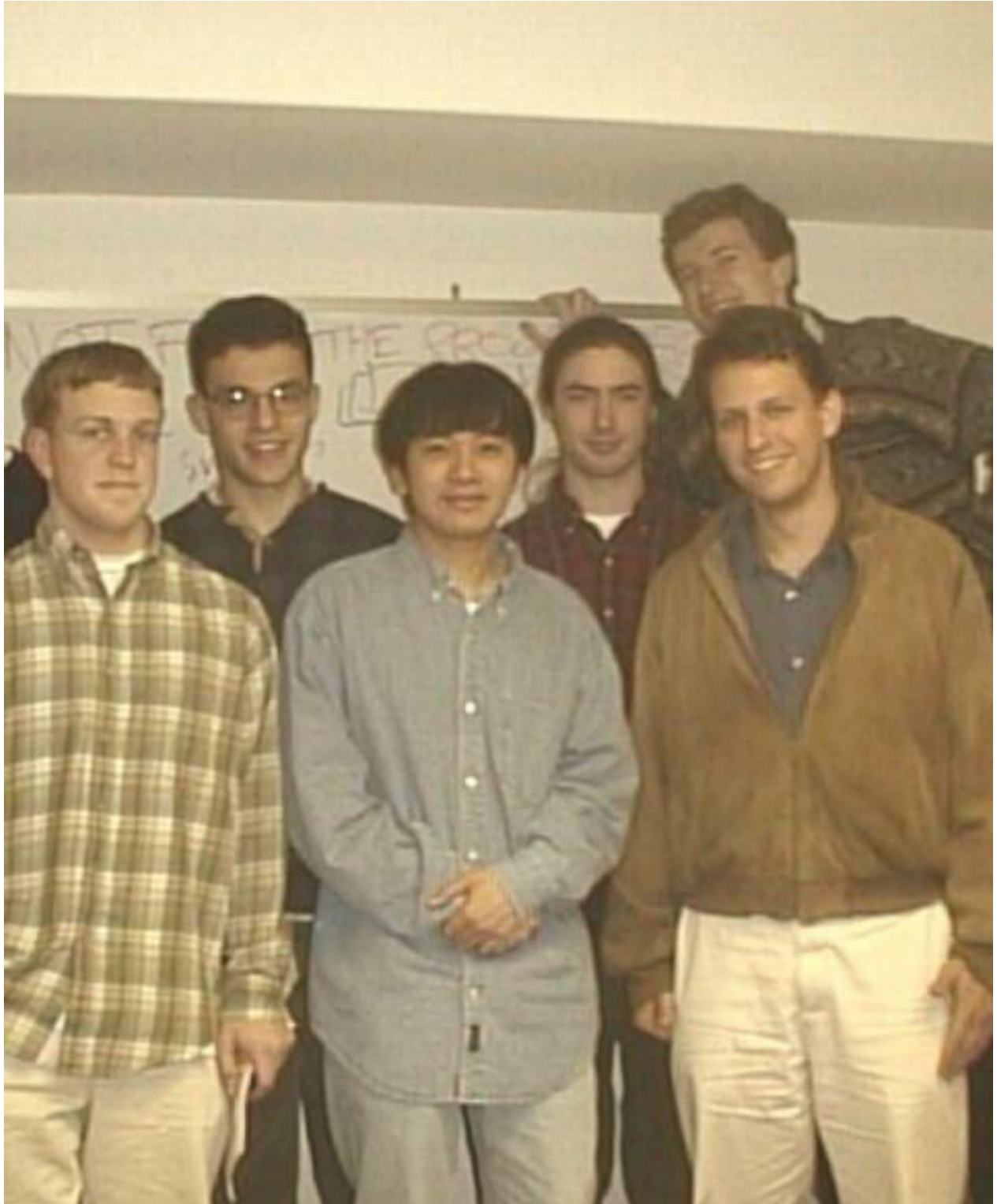
Doing things in their own way paid off for the PayPal team as they were able to file for an initial public offering (IPO) in late 2001, later completing the IPO in February 2002. According to PayPal’s website the stock rose at more than 54% on the first day and closed at \$20.09 a share.

After the IPO, eBay users wore PayPal shirts to an eBay user conference in June 2002 to show their 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.

### ‘Trial by fire’

“I remember sitting in the integration meeting with eBay,” Rabois said. “So, this is as we are figuring out how to align the teams and prioritize roadmaps. And the eBay team arrived with a 137-page PowerPoint. And, they proceeded to try to walk David Sacks, and me, and a couple of my colleagues through this PowerPoint slide by slide.





“As soon as the meeting started, I remember to this day, thinking, ‘there’s no way in the world this is going to work.’ David [Sacks] immediately started flipping ahead like 20 to 30 pages and the eBay team was mortified that someone wasn’t waiting for them to narrate slide by slide for a three-hour meeting. In the history of PayPal, there has never been a three-hour meeting,



period; and they started off the integration meeting with a three-hour time block.”

Rabois added, “As we were walking out of the meeting, David Sacks turned to me and he said, ‘If we stay here, you’re going to have to build a whole PowerPoint team, because that’s the only way to communicate with these people.’”

This was the start to PayPal’s corporate relationship with eBay, a relationship that began with tension and ultimately ended with disaffection, as almost all of the original PayPal team went back out into the wild to fend for themselves. According to Sacks, eBay made no real effort to keep the founders around. eBay liked the product, but they had no need for this ragtag crew of Silicon Valley “misfits,” and the PayPal team felt it from the start.

“PayPal had been competing with eBay for a few years before the deal, and we were beating them on their own platform, which is a hard thing to do,” Sacks said. “The reason why we felt we were able to win is because they were very bureaucratic and slow in the way they made decisions. So, I think there was a sense, from the beginning, that this wasn’t a great cultural fit.”

If they knew that it wasn’t going to work out, then why did they sell to eBay in the first place?

They sold the company because they felt like they had to.

Sacks said that, at the time when PayPal sold to eBay, roughly two-thirds of PayPal’s transactions were happening on eBay. PayPal was winning the battle, but they were in a fragile position. That’s part of what pushed the PayPal team to innovate in the ways that they did.

eBay put PayPal in a crucible. PayPal’s product exploded years earlier when it first launched on the eBay platform, and then eBay began competing with them. The PayPal team was fighting for their lives because, as Sacks put it, eBay “owned the checkout line.”

PayPal was put to the test and, as a result, it had to adapt. eBay was big and slow, so PayPal had to be small and nimble. This is where iterative design came into play. PayPal had to be inventive, throwing away processes and features that didn’t work, while at the same time adjusting its approach to find out what did work. PayPal couldn’t compete with eBay’s scale or resources, so it had to win with speed and agility.

But, the same company that was instrumental in forcing PayPal to define its process, ended up pushing the PayPal Mafia away.

“I think that one of the bittersweet ironies of the whole thing is that, if eBay hadn’t been dysfunctional, I’m not sure PayPal could have won,” Sacks said.

“It’s the kind of thing where if eBay and PayPal had been perfect cultural fits, they might have beaten us. If they were as scrappy as we were, it would have been a big problem. We were able to beat this slow-moving bureaucratic

incumbent, and that was a good thing, but it was also the reason that our people weren't likely to want to stay there."

If the PayPal Mafia had been forced to stay at eBay, it's not apparent whether or not they would have had the opportunity to create new things. Having something to prove can be a good thing for an entrepreneur, and everyone on that team had something to prove, especially after the split from eBay. Sacks described the whole experience as a "trial by fire."

"I think the trial by fire produced the true steel," Sacks said. "It burned away the impurities and what was left was a pure approach to startups that could be replicated across a whole bunch of areas."

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### Silicon Valley misfits

The Silicon Valley misfits had cracked the code. They had built, iterated, and scaled a product to a [\\$1.5 billion acquisition](#), but it wasn't enough.

"There's always a degree to which a lot of very successful entrepreneurs both think they can do great things, but also have a sense that people don't think they can and that they have to prove it. You have, sort of, both a superiority and inferiority complex at the same time," Thiel said.



Of course, there was this crazy back and forth dynamic with eBay, partly fueled by the idea that PayPal would never be able to reach its full potential as a standalone company—but the fact of the matter is that this group of innovators had built a successful product and were all but forced to walk away from it. As an entrepreneur, what do you do when you are forced to walk away from something you built?

You build something else.

“With PayPal, you essentially had this mass exodus of highly entrepreneurial people who had learned all these techniques, that were very innovative, that could make a new product explode, at a time when everybody else had given up,” Sacks said.

The PayPal Mafia is often referred to as a “network” of people, but Thiel is hesitant to describe what PayPal achieved as the work of a network.

“I prefer the word friendship to networks, and I think the critical piece was that some incredibly deep friendships were forged. I think that is what’s very underrated in our world today,” Thiel said.

Part of what PayPal’s culture was rebelling against was transactional work relationships. By developing and maintaining actual friendships, the PayPal Mafia was able to remain invested in one another’s success and committed to seeing each other change the world.

It would be an exaggeration to say that everyone was really good friends at the end of it all, Thiel said. Although, some strong bonds were formed that led to the development of most of the post-PayPal unicorn companies. Some of these bonds include the many PayPal Mafia members that went on to work together again in new companies:

- Jeremy Stoppelman and Russel Simmons, **Yelp**
- David Sacks and Mark Woolway, **Yammer**
- Chad Hurley and Steve Chen, **YouTube**
- Peter Thiel and some former PayPal employees, **Palantir**
- Reid Hoffman and some former PayPal employees, **LinkedIn**

“I think if you look at the post-PayPal Mafia companies, or startups, the ideas were all very different,” Sacks said. “Yelp, YouTube, Yammer, LinkedIn, the list goes on and on—they’re all pretty different products. So, I think every founder had a very different product idea, but I think some of the techniques they learned and the playbook—how you get a startup to scale—I think was something they learned at PayPal, and had the confidence to do because of PayPal.”

PayPal was one of the elite few startups to survive the dot-com crash. The success of its team led them to go on and create some of the most important

startups to date. It also helped many members of the PayPal Mafia to become successful investors. Just to name a few:

- **Peter Thiel**, Founders Fund and Clarium Capital
- **Reid Hoffman**, Greylock Partners
- **Keith Rabois**, Khosla Ventures
- **Roelof Botha**, Sequoia Capital
- **Dave McClure**, angel investor and former head of 500 Startups
- **Luke Nosek**, Founders Fund
- **Ken Howery**, Founders Fund

Their success is due to the fact that they didn't give up on consumer technology, and they didn't give up on Silicon Valley. Thiel recalls that in 2002 to 2004, the conversations in Silicon Valley were centered around the idea that technology was dead and that investors and entrepreneurs should focus their efforts elsewhere. This led to what Thiel called a "collective amnesia" where investors began to look back to tenants of the old economy such as banking and housing, which left the technology sector wide open for investors at the time.

"If you show up and no one else is there, that's a pretty good place to be," Thiel said.

As Rabois noted, would-be entrepreneurs didn't have a lot of options at the time.





“One of the key elements was that in 2003, which is when we all became free agents after the acquisition, there was basically nobody in Silicon Valley that believed there was going to be a future of consumer technology.

“The bubble had just crashed, massively, and people were very skeptical about future technology, but specifically around new consumer ideas,” Rabois said. “So, nobody would fund them. Basically, there was just Reid [Hoffman], Peter [Thiel], and a few of us, as well as Sequoia to some extent. But, no other VC fund would actually write checks to consumer-oriented startups, except in the most rare circumstances. So, for the entrepreneur who believed that there was going to be another generation or wave of innovation, there was nowhere else to go.”

It’s not just the money that members of the PayPal Mafia put into new startups, it was the advice they gave that helped shape the next generations of startups. It’s why so much of the Valley looks now like PayPal looked so many years ago—because these men passed these ideas along that have now come to pass as conventional wisdom.

Ideas that were once passed on from an original member of PayPal to a mentored startup or portfolio company are now being evangelized by new founders as they have risen to prominence or taken to mentoring their own flock of new companies.

## Learning the right lessons

When it comes down to it, there were too many factors that went into PayPal's success for any one piece to be pulled out and held accountable.

"The motivation question is always important," Thiel said. "I think [with] the great companies there's always this mission part where there's always a sense that if you didn't do it, no one else would. If you aren't working on this, this will not get built. That was true of the original PayPal vision."

Thiel said that in most companies, people tend to learn the wrong lessons. For example, if you were in a startup that failed in the 1990s, the lesson was that it was impossible, and that you needed to set your sights on something smaller and easier to execute.

Conversely, if you were a part of a company where everything works perfectly well, like Google or Microsoft, the lesson was that it was too easy, which might contribute to why these companies haven't produced the volume or caliber of companies that we have seen come from PayPal. Entrepreneurs coming from these types of companies underestimate how difficult it is to build a company.

"At this point Silicon Valley has become this magnet for talent from all over the US and all over the world. New York had that position for a quarter of a century, from say 1982 to 2007 or 2008. So, there is a way in which I think Silicon Valley is replacing New York as the place where people try to achieve great things, and I actually think that's a very healthy shift," Thiel said.

According to Thiel, what the US needs to do is go back to the future—to look at the future as something we're building and not something that will happen regardless.

Silicon Valley, now more than ever, represents this attempt to go back to the future, this return to technology. That's why the PayPal story resonates more now than it did in 2007.

## Takeaways

**Keith Rabois** – "The most important piece of advice is to choose an opportunity based upon people you'll learn the most from," Rabois said. According to Rabois, he quotes something that he learned from Thiel almost every day.

**David Sacks** – "Probably the single most important thing for me personally was I learned the absolute centrality of product," Sacks said. "I joined PayPal as VP of strategy. My approach was much more theoretical then—it was more about high-level strategy. What I realized, very early on, is that if you didn't have a good product, you didn't have anything, and that shaped my entire subsequent career."

**Peter Thiel** – "The very important lesson that was learned was that starting a great company is neither easy nor impossible, it is somewhere in between. It's really hard, but doable," Thiel said.

# The PayPal Mafia's Golden Touch

By [David Gelles](#)

- April 1, 2015

The ride-hailing app Uber, the apartment rental site Airbnb and other darlings of the next generation of Silicon Valley start-ups are reshaping the way people use the web. They are also changing expectations about just how much money private companies can raise while still staying out of the public markets.

Known as the unicorns, these private technology companies are worth \$1 billion or more, thanks to an influx of cash from venture capital firms, hedge funds, private equity firms and mutual funds.

But alongside the Wall Street money flowing into these companies' coffers, a familiar set of names is operating behind the scenes by advising, investing in and, in some cases, founding the unicorns.

The PayPal Mafia — a nickname given a group of alumni of PayPal, the payments company that went public in 2002 and was acquired by eBay — has its hands in many, if not most, of today's most valuable private tech companies.

Their enduring influence, more than a decade after they made their first fortunes, speaks to the tightknit social fabric of Silicon Valley's technology industry, and to the trust new entrepreneurs place in those who have succeeded before them. And now, the PayPal group's close ties with the current crop of unicorns — a collection of some of the most valuable technology start-ups ever seen — suggest its influence is undiminished.

Peter Thiel, a co-founder and former chief executive of PayPal, is an investor in companies including Airbnb, the big-data company Palantir, the spaceflight provider SpaceX and the payments company Stripe, four of the most valuable tech companies in Silicon Valley today.

Jeremy Stoppelman, the former vice president for engineering at PayPal, has personally invested in the payments provider Square, Uber, Pinterest, Airbnb and Palantir.

And Keith Rabois, the former head of business development at PayPal who is now a partner at Khosla Ventures, holds shares in Airbnb, Stripe and Palantir, to name a few. The shared experience of PayPal alumni makes their advice — and money — particularly valuable to young entrepreneurs. An online payments provider founded in the 1990s, the company succeeded despite going public shortly after the terrorist attacks of Sept. 11, 2001, even as the economy was still reeling from both the attack and the collapse of the dot-com bubble.

"PayPal was an extreme experience in survival against all odds, over and over again, with enormous and lasting success," said Max Levchin, PayPal's co-founder and chief technology officer. "Like veterans of an intense military campaign, we fall back on lessons learned, and relationships established in our early 20s."

After PayPal was acquired by eBay in 2002, the alumni of PayPal emerged as among the few willing to invest in new tech start-ups.

“We went from this bunch of misfits to the center of the ecosystem,” Mr. Rabois said. “Entrepreneurs needed capital, and the only place to get the capital was from us.”

Even as the members of the alumni group have gone on to found new companies and take roles at venture capital funds, they have continued to invest in each other’s companies and in new entrepreneurs.

“There’s a vicarious reliving of our old experience by working with new young teams,” said Roelof Botha, a partner at Sequoia Capital who was head of business development at PayPal and has invested in Square. “The surest path to dementia is to stop working when you’re young.”

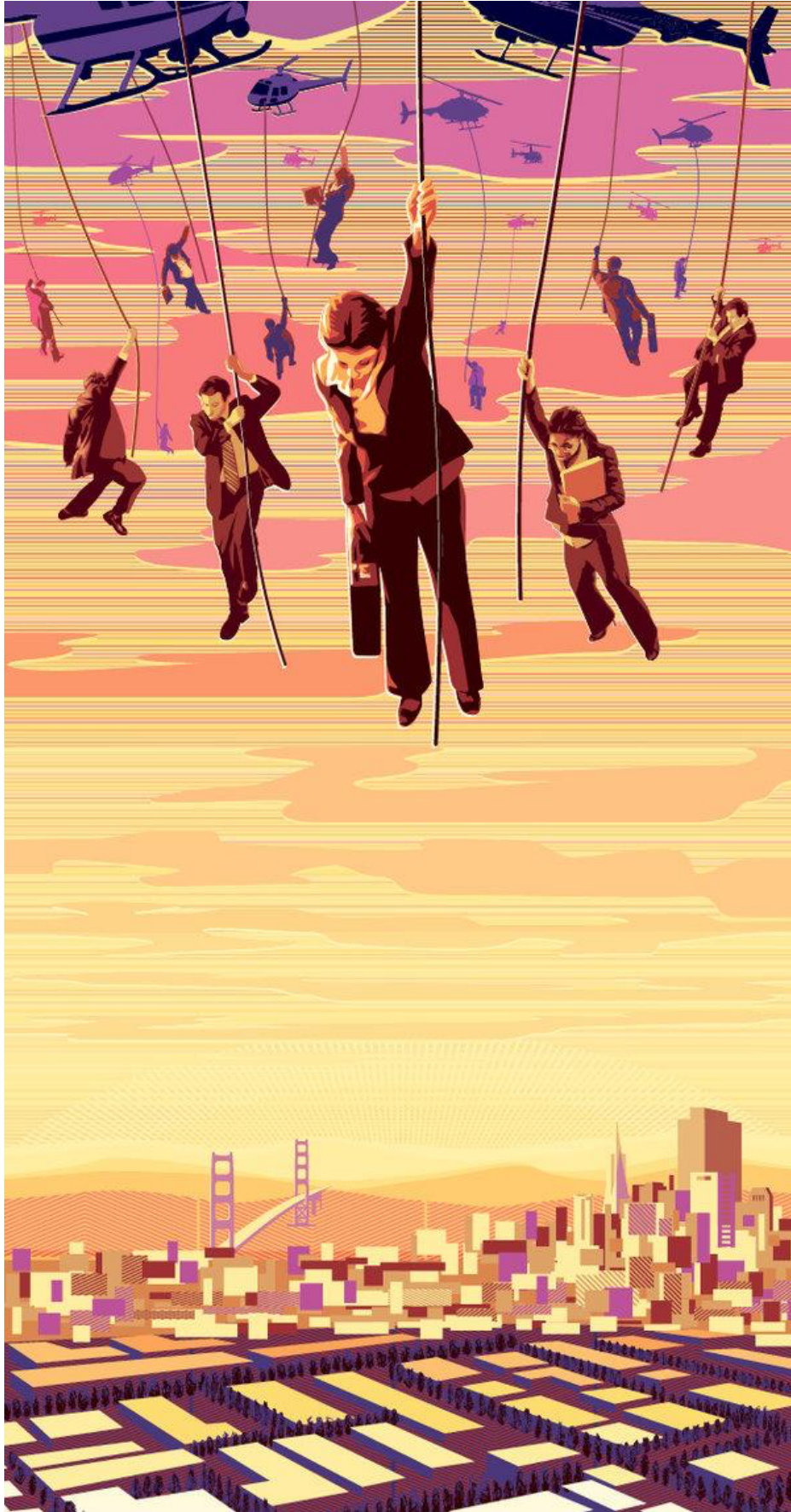
Part of the reason this small cabal of friends — all men, mostly white, under the age of 50 — remains at the center of the action in Silicon Valley is that, among the entrepreneurial elite, success begets success.

“There’s a network effect to these things,” said Mr. Stoppelman, who today is chief executive of Yelp, the user review site he co-founded. “If you have a name that’s associated with success, people will seek you out. Why do smart people go to Harvard? Because previous smart people went to Harvard.”

Or in this case, entrepreneurs want PayPal alumni to invest in their start-ups, because PayPal alumni have invested in previously successful entrepreneurs. For more than a decade, the PayPal group has been integral to the founding or financing of many of the best-known start-ups, making them even richer in the process. Mr. Thiel, who now runs venture and hedge funds, was one of the earliest investors in Facebook. Several PayPal alumni invested in Yammer, which was acquired by Microsoft for \$1.2 billion in 2012.

Yammer was also founded by a former PayPal executive, David Sacks, PayPal’s former chief operating officer. And indeed, the group has not only funded many of today’s successful technology companies but also has continued to create them.





## Where Wall Street and Silicon Valley Intersect

Entrepreneurs and venture capitalists try to resist Wall Street's entreaties, but a new relationship has lead to new fund-raising methods.

LinkedIn, now worth \$32 billion, was co-founded by Reid Hoffman, another former PayPal chief operating officer. Mr. Stoppelman and another PayPal alum, Russell Simmons, co-founded Yelp, now worth \$3.5 billion. And Elon Musk, who co-founded the company that became PayPal, subsequently started Tesla, worth \$23 billion, and SpaceX, a unicorn valued at \$12 billion.

Even YouTube, acquired by Google for \$1.6 billion in 2006, was founded by three PayPal alum: Chad Hurley, Steve Chen and Jawed Karim.

"We have a very good collective résumé," said Scott Banister, a former PayPal board member, explaining the sustained influence of the group. "It's not just that you're associated with the company, it's that you're associated with the other people associated with the company."

After leaving PayPal, Mr. Banister co-founded an email service, IronPort, which he sold to Cisco Systems for \$830 million.

Investing in new entrepreneurs today allows these seasoned veterans of the technology scene to stay close to the ground, where new entrepreneurs are trying to bootstrap their way to fortune and fame.

Mr. Levchin sold a social gaming company, Slide, to Google in 2010. He recently started a payments company, Affirm, backed by several former colleagues.

"At Yelp, every time it was time for a funding round, Peter Thiel was my go-to adviser," Mr. Stoppelman said. "When it came to thinking about the product and growth strategies, Max was my day-to-day. For broad thinking, I would go to Keith."

But investing in start-ups is inherently risky. While PayPal alumni have managed to back several big winners, the specter of failure always looms large.

"Anytime I write an angel check I say, 'This is probably the last time I will see this money,'" Mr. Stoppelman said. "It hurts just as much to lose \$25,000 as it would to lose \$1 million."

For now, however, the collective résumé of the PayPal Mafia is largely unblemished.

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