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In Web World, Rich Now Envy the Superrich

By KATIE HAFNER

SAN FRANCISCO, Nov. 20 — Almost anywhere else, Reid Hoffman would be considered a major success. As an early executive of PayPal, he was in the money when the company was sold to eBay in 2002 for $1.5 billion. These days, he runs a new start-up company of his own while investing in others.

But when greater fortunes are made — as happened recently to three former PayPal colleagues when YouTube was sold to Google for $1.65 billion — Mr. Hoffman said he could not avoid a twinge of envy.

“It’s kind of embarrassing,” said Mr. Hoffman, 39, whose start-up, a business-oriented social-networking site called LinkedIn, is almost four years old. “You started a year or two earlier, and they start after you and then this thing zips right past you and gets the golden results.”

Envy may be a sin in some books, but it is a powerful driving force in Silicon Valley, where technical achievements are admired but financial payoffs are the ultimate form of recognition. And now that the YouTube purchase has amplified talk of a second dot-com boom, many high-tech entrepreneurs — successful and not so successful — are examining their lives as measured against upstarts who have made it bigger.

Mr. Hoffman, who made enough from PayPal to “retire to a comfortable upper-middle-class lifestyle,” said he felt no spite toward peers who later hit bigger jackpots. Still, he said, “there’s always components of, ‘Wow, you happened to pick the right time,’ and that will always lead to some kind of implicit envy.”

The envy is magnified by the fickleness of this latest wave of sudden wealth, creating some huge paydays but a small circle of winners. Partly that reflects more judicious investment of venture capital in new companies; the amount invested has risen slightly over the last year but is down 70 percent from the peak of $40 billion in 2000.

“This is still a place where YouTube is a real metaphor for what’s possible, just on a more selective scale,” said Stephen Levy, director of the Center for Continuing Study of the California Economy, based in Palo Alto.

Seven or eight years ago, when it seemed that anyone with a business plan could get rich, the finger of fortune was generous — and democratic. By the time it occurred to people to be envious, it seemed, they were rich, too — at least on paper. It was in Silicon Valley, after all, that the term “sudden wealth syndrome” entered the clinical vocabulary.

In the end, of course, much of the paper wealth turned worthless. But now, in the wake of successes like YouTube and MySpace, which was sold last year to the News Corporation for $580 million, some people believe that the foundations for more solid success are now in place. For one thing, the viability of online advertising is no longer in doubt, as Google and others have proved.

And the success of a YouTube can produce not only envy but also serious motivation — in Silicon Valley and beyond.

“Over all, I think things like YouTube make people reconsider the possibilities,” said Bart Selman, a professor of computer science at Cornell. In 1999, at the tail end of the dot-com boom, Professor Selman had a start-up called Expertology, which used a Web-based system that tapped collective expertise to generate legal referrals. The business failed. “After the dot-com bust, people were thinking, ‘Maybe this is all just hype,’ ” he said.

Now, Professor Selman said, he has seen several start-ups, like Hoovers.com and LinkedIn, successfully pursuing ideas along the lines of Expertology’s mission. “But of course, timing is everything,” he said.

And while he says he thinks the YouTube deal was “a little insane,” Professor Selman, who has watched several colleagues become highly wealthy after joining Google, is considering trying his start-up luck again, with a variant on the Expertology idea.

“Maybe there’s more to the economic model than we realized five years ago,” he said. “Maybe the new wave is a little more solid.”

Professor Selman, 47, said that while he was careful not to “overhype” the new wave, he routinely tells his students that they have a good chance of starting the next Google or YouTube. “I believe there are still many opportunities out there that we cannot even conceive of at this point,” he said.

With rewards of that scale on the horizon, the pressure to make a fortune can be enormous, and people have different ways of coping with it. Some find inspiration in others’ success, while some spend tremendous amounts of psychic energy worrying about how rich their friends are.

Envy can even affect relationships among siblings.

When he was growing up in Winchester, Mass., Peter Pezaris told friends and family that he planned to become a millionaire by the age of 30 and a billionaire by 40.

"I remember thinking, 'Yeah, sure, right,' " said Mr. Pezaris's older brother, John, a computational neuroscientist at Harvard.

True to his word, in 1999, Peter Pezaris sold his two-year-old business, Commissioner.com, to CBS SportsLine for $46 million, three days after his 30th birthday. (The proceeds were shared among five partners; his brother was not among them.)

Peter Pezaris, 37, who is now based in Boca Raton, Fla., said he still believed that he had "plenty of time" to become a billionaire by age 40 with his new start-up, Multiply.com, a social networking site.

This time his brother is paying closer attention. John Pezaris had helped informally with the first business; now he programs for Multiply in his spare time and has a formal stake.

"I wanted to codify something for his second one," said John Pezaris, who is 43. "So we came to an arrangement."

Going for success a second time is an iffy proposition in any business and is especially unpredictable in the high-tech world. It still gnaws on Mr. Hoffman, the former PayPal executive, that he passed up the chance to invest in YouTube. When YouTube was founded, Mr. Hoffman was preparing to make an investment, he says, but a venture capital firm, Sequoia Capital, edged him out by offering better terms. Sequoia could make nearly $500 million from the Google-YouTube deal.

"My only real regret is I didn't go back and say, 'Hey, let me in at least a little bit,' " he said.

And, of course, there is the retrospective rationalizing, which is another way to cope with envy. Mr. Hoffman now does this with his missed YouTube opportunity.

"It looked like a couple of guys who'd built the right kind of technology" for something that could grow, he said, "but it could also have been an early blip."

Then again, Mr. Hoffman said, "It's the big wins that keep everyone diving off the cliff."

Indeed, among high-tech entrepreneurs in particular, for whom enormous wealth seems within reach, it is easy to lose perspective.

"It can seem like the only way to be respectable is to achieve as much as the founders of YouTube or Google," said Alain de Botton, author of "Status Anxiety" (Random House, 2004).

Reference points only make matters worse, Mr. de Botton said. He pointed to research that has been done on attractive women who feel ugly when surrounded by images of more beautiful women. "Very often the problem isn't so much what an individual happens to look like, but the extraordinary comparisons being made," he said.

Yet one would-be entrepreneur's inspiration is another's sense of pressure. "Cynics would say you need this kind of pressure or people won't achieve, that you only produce these great results if there's this kind of tension in the air," Mr. de Botton said.

But some find a way to opt out.

James Hong, a co-founder of Hotornot.com, a dating site, found that his $55,000 Porsche Boxster had come to symbolize the trap he often saw others in Silicon Valley fall into. Mr. Hong, 33, says Hotornot's success allowed him "a very comfortable life without ever needing to get a job — freedom money, as they call it." But he nonetheless saw himself succumbing to the envy malaise.

After all, his best friend, Max Levchin, was a founder of PayPal and has a net worth probably in the tens of millions.

So in a conspicuous move to get out of the game, Mr. Hong has decided to sell his sports car and has bought a Toyota Prius.

"I don't want to live the life of a Boxster, because when you get a Boxster you wish you had a 911," he said, referring to a much more expensive Porsche. "And you know what people who have 911s wish they had? They wish they had a Ferrari."

Mr. Hong said his most effective coping mechanism for feeling outstripped by his friends' wealth — beyond his choice of cars — is to try to put it out of his mind.

"The only way I've dealt with it over time is to consciously decide not to care," he said. Still, he confesses: "Every now and then, when I hear they're getting a certain valuation, I think, 'I need that, too.' There's a little devil inside all of us that says, Why not you?"