It’s almost Q4 2025.

So what does the startup landscape look like?

Bret Waters
August 26, 2025

Bret Waters

Founder and CEO of three Silicon Valley software companies:

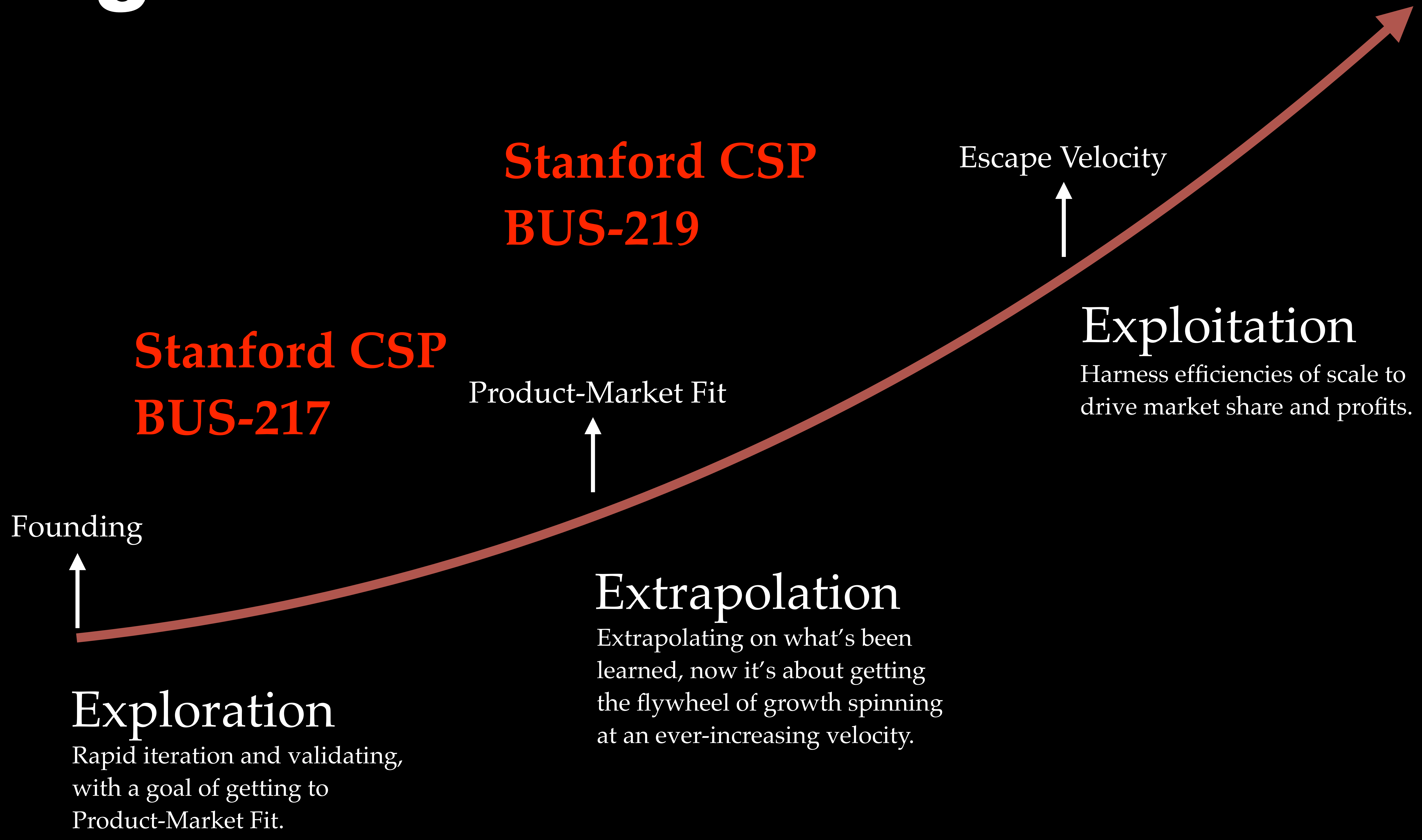
- Metagraphics – developed the first web-based document generation engine.
  Sold to Linotext America.

- Artmachine – developed the first pure-SaaS digital media management system.
  Sold to OpenText.

- Tivix – developed fintech systems for major banks around the world.
  Sold to Kellton.

Now I teach two entrepreneurship courses in Stanford Continuing Studies.

Stages of a venture.



The Launch Path

Getting from a startup idea to a launch-ready venture.

The Launch Path: Getting from a startup idea to a launch-ready venture. Paperback – November 4, 2023

by Bret Waters (Author)

4.8 ★★★★★ (15)

See all formats and editions

Written by a Silicon Valley startup veteran who teaches entrepreneurship at Stanford and coaches startup CEO's at Miller Center for Social Entrepreneurship, this book is for anyone who wants to follow an effective and efficient path from a startup idea to a launch-ready, funding-ready venture. Written in a compelling, first-person style (and peppered with Silicon Valley anecdotes) the author explores patterns of startup success and failure while providing a clear process for turning your startup idea into a launched venture that is poised for success and growth. Whether your goal is launching the next billion-dollar tech "unicorn," a rock-solid mid-sized business, or a social venture focused on global impact, *The Launch Path* will help to get you there safely and successfully. The book comes with a companion website that has additional resources and tools for entrepreneurs and innovators.

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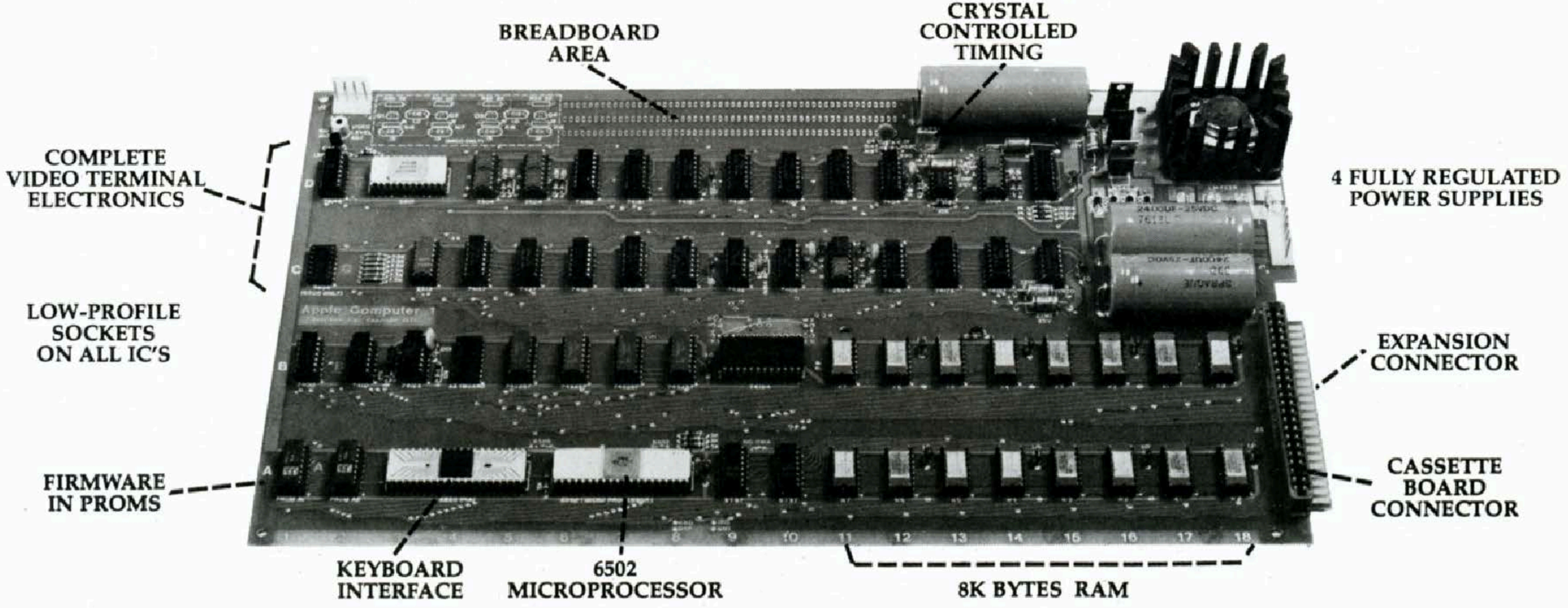
Print length	Language	Publication date	Dimensions	ISBN-13
310 pages	English	November 4, 2023	6 x 0.7 x 9 inches	979-8989090402

I’ve been in Silicon Valley my entire life.


When I grew up in the valley, there was
Moffett Field and not much else.

I was in High School when the Apple 1 came out.



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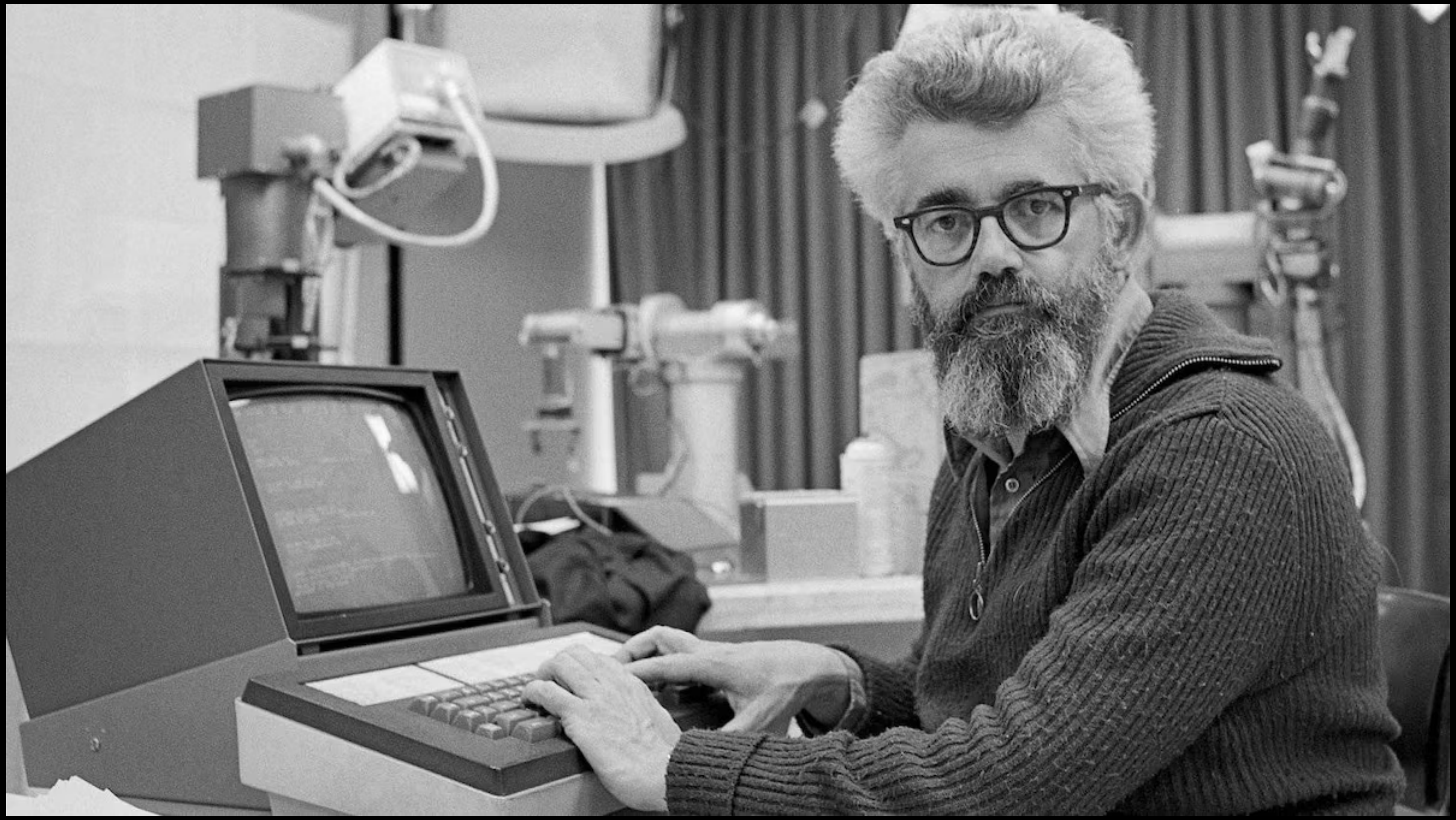
OCTOBER 1976 CIRCLE NO. 7 ON INQUIRY CARD INTERFACE AGE 11

So I’ve seen a lot of cycles.

What does the startup landscape look like right now?

AI

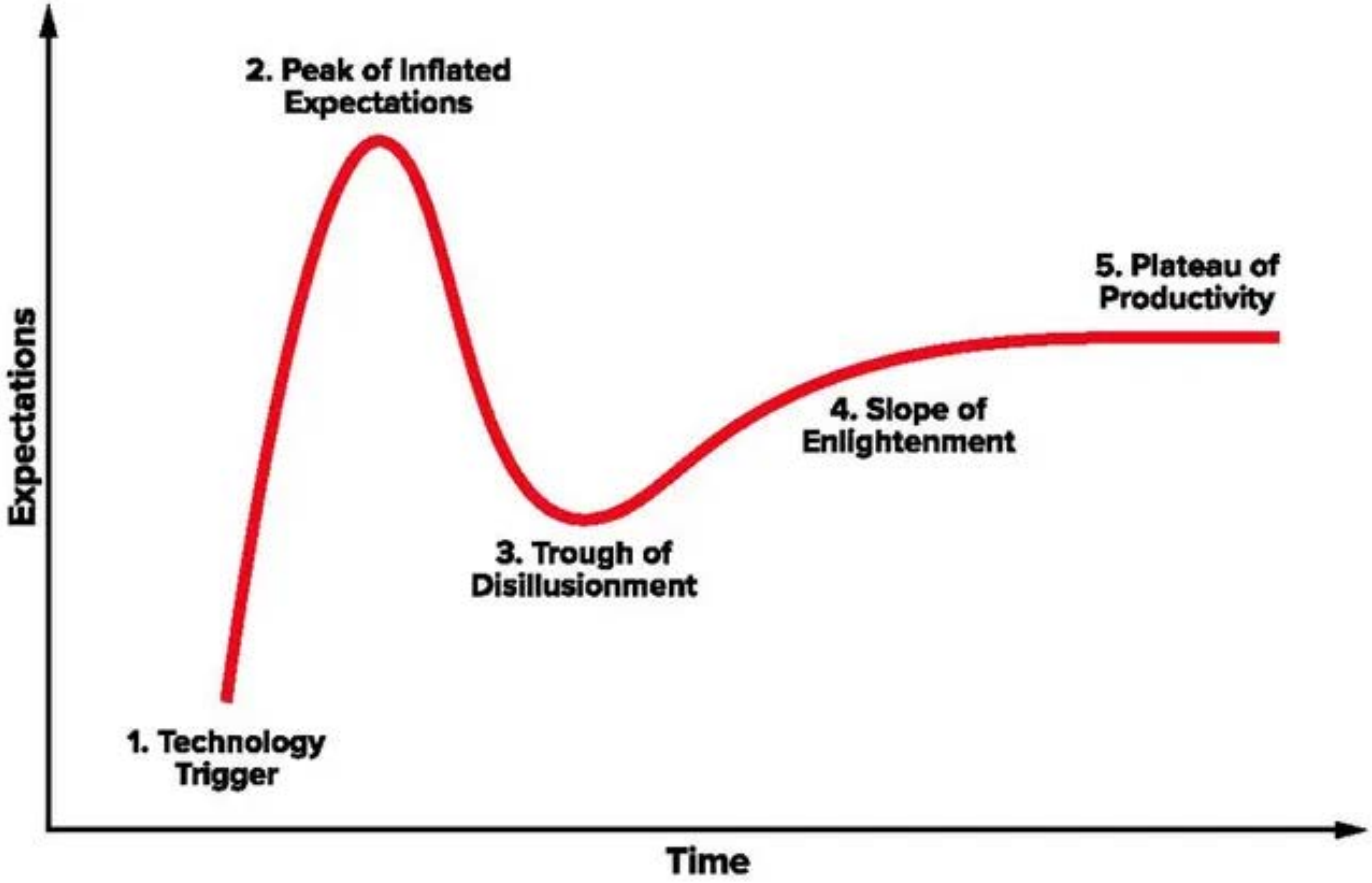

John McCarthy
Professor at Stanford University
Coined the term “Artificial Intelligence” in 1956.



John McCarthy would be pleased with 2025.

Finally, AI is finally having its day in the sun.

Gartner Hype Cycle



GPT-5: Overdue, overhyped and underwhelming. And that's not the worst of it.

A new release botched … and new research paper that spells trouble

GARY MARCUS
AUG 09, 2025

GenerativeAI had a truly bad week. The late and underwhelming arrival of GPT-5 wasn't even the worst part. But before we get to the worst part (spoiler alert: a new research paper that I will discuss towards the end), let's review GPT-5's shambolic debut.

This was supposed to be the week when OpenAI finally cemented its dominance. The long rumored GPT-5 was about to arrive. Sam Altman was so cocky that in advance of the livestream debut he posted a screen grab from a Star War film, Rogue One:

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FORTUNE

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MIT report: 95% of generative AI pilots at companies are failing

BY **SHERYL ESTRADA**
SENIOR WRITER AND AUTHOR OF CFO DAILY

August 18, 2025 at 6:54 AM EDT

SHARE

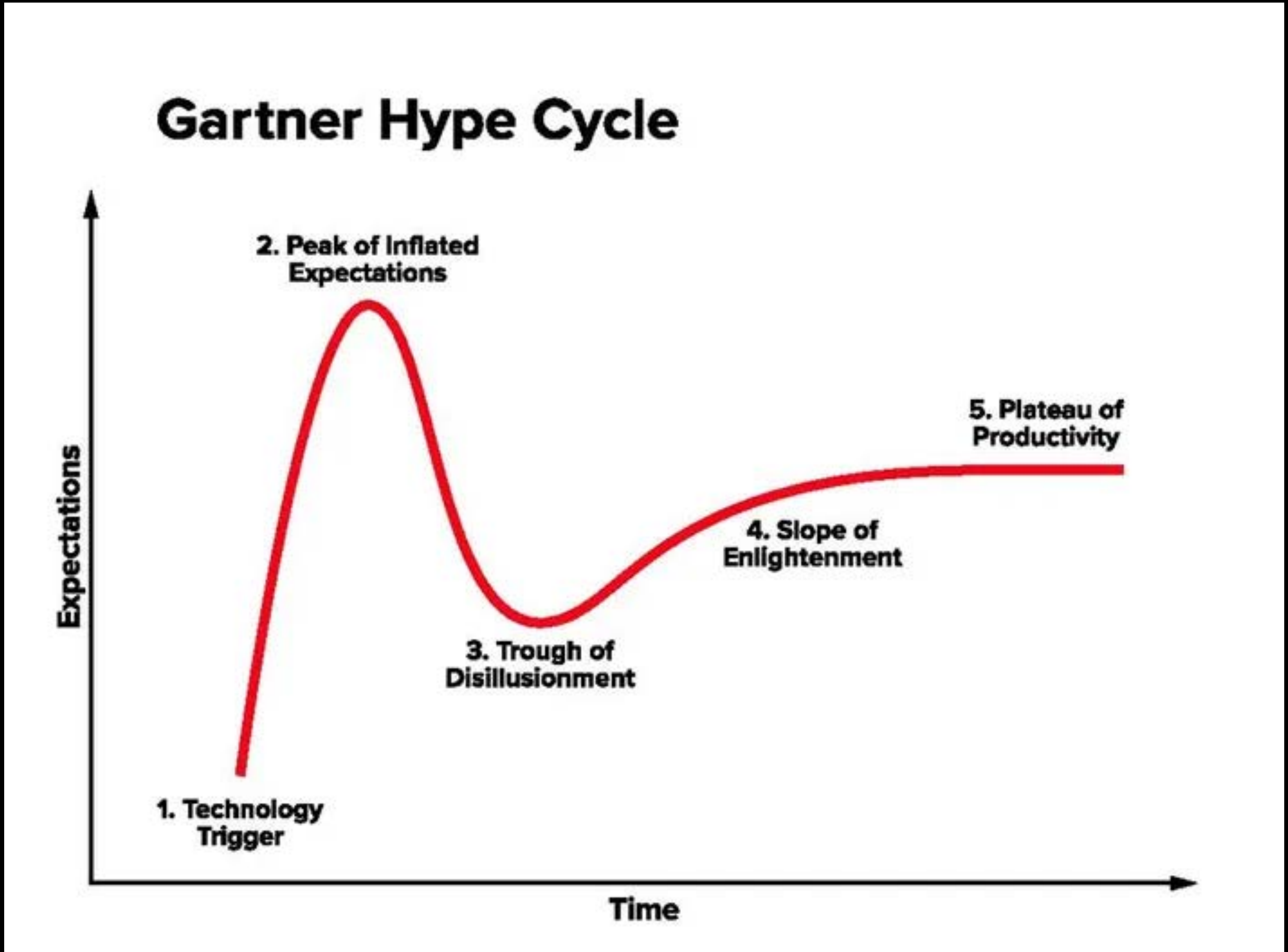
Mark Zuckerberg Shakes Up Meta's A.I. Efforts, Again

Meta internally announced a new restructuring of its artificial intelligence division amid internal tensions over the technology, people with knowledge of the matter said.

Listen to this article · 5:59 min Learn more

Share full article

Are we entering the next phase?



One thing we know for sure is that hype drives FOMO and FOMA drives CapEx.

And the CapEx of the GenAI Giants has been staggering.

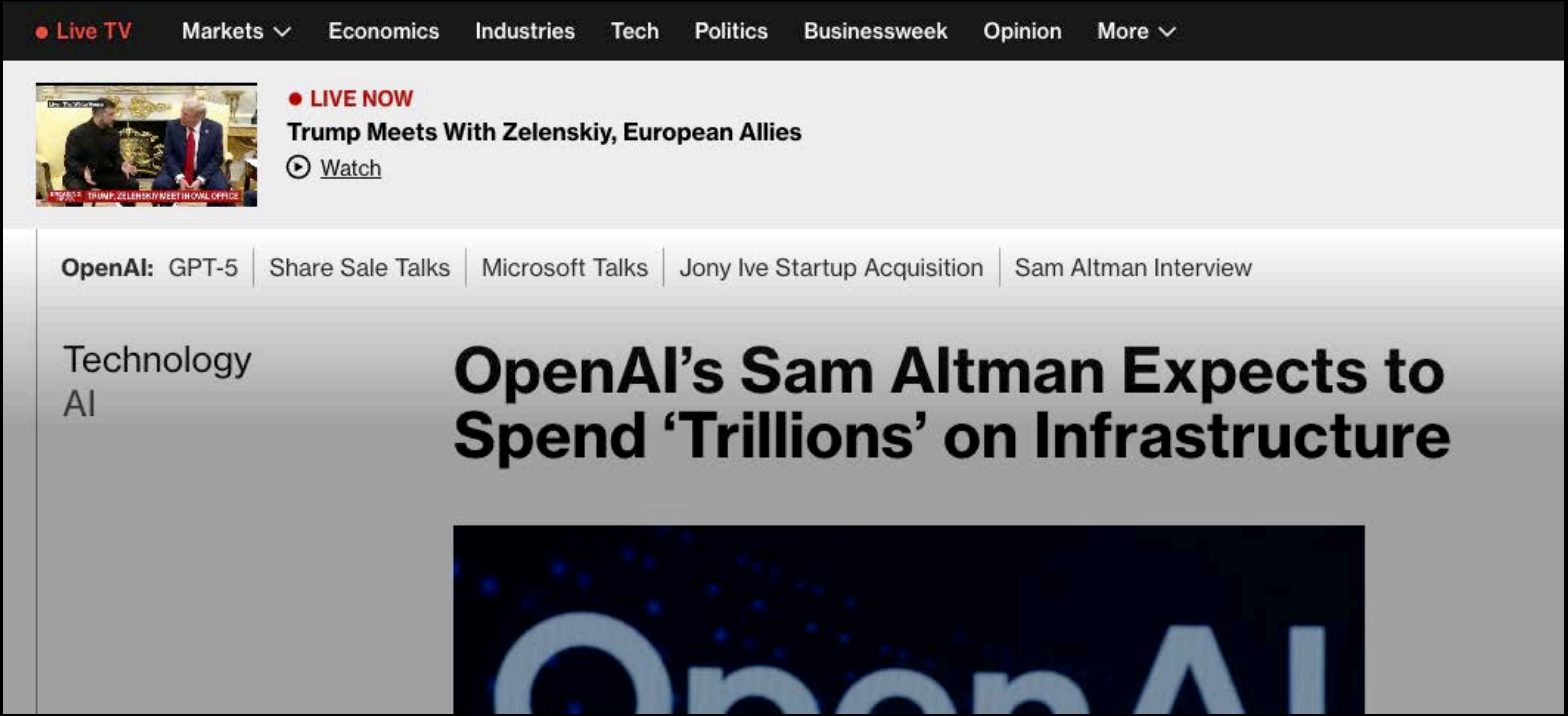
Last year Microsoft spent 25% of revenue on CapEx.

GenAI Giants

OpenAI	Google	Meta	Anthropic	CoHere	Mistral
$500B valuation $58B raised	$85B invested	$70B invested	$62B valuation $18B raised	$62B valuation $18B raised	$10B valuation $18B raised

In the last three years, billions and billions of dollars have been spent building AI models

And now @sama says he'll spend trillions more.



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Trump Meets With Zelenskiy, European Allies

Watch

OpenAI: GPT-5 | Share Sale Talks | Microsoft Talks | Jony Ive Startup Acquisition | Sam Altman Interview

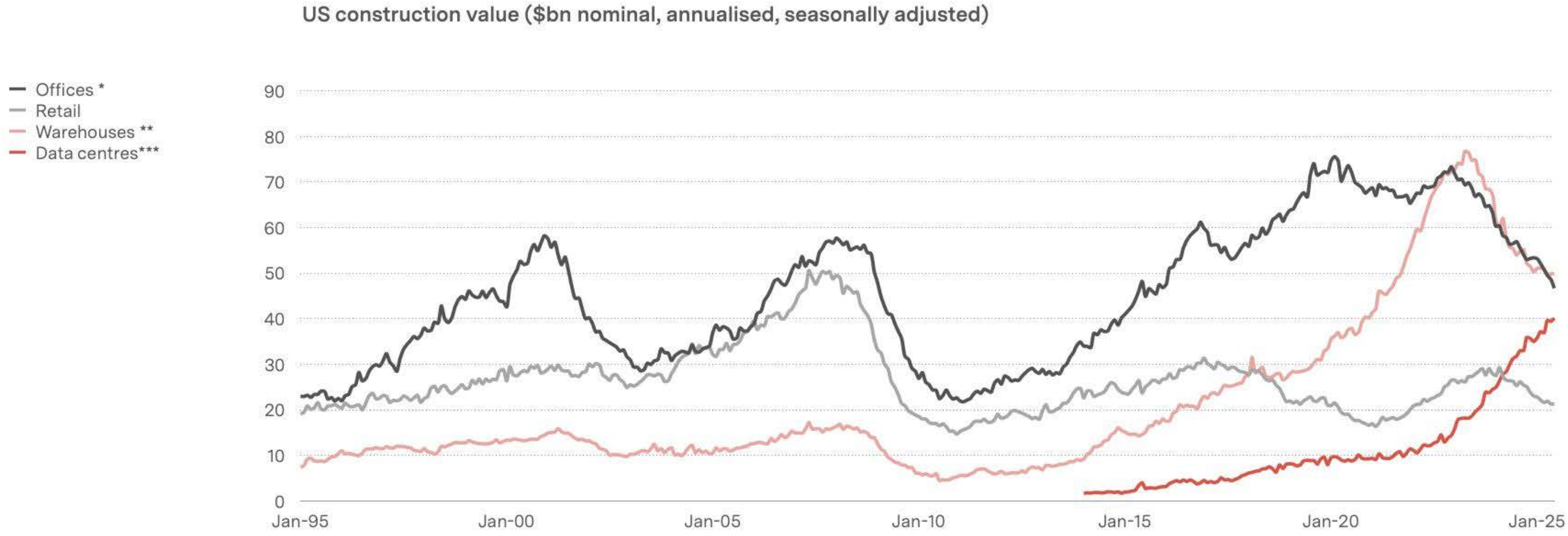
Technology

AI

OpenAI's Sam Altman Expects to Spend 'Trillions' on Infrastructure

LLMs require huge datacenters.

The amount of money now being spent on US datacenter construction (excluding compute) is now twice as large as retail and about to overtake office space.



Source: BLS. * Excludes data centres ** Excludes mini storage ***Excludes compute

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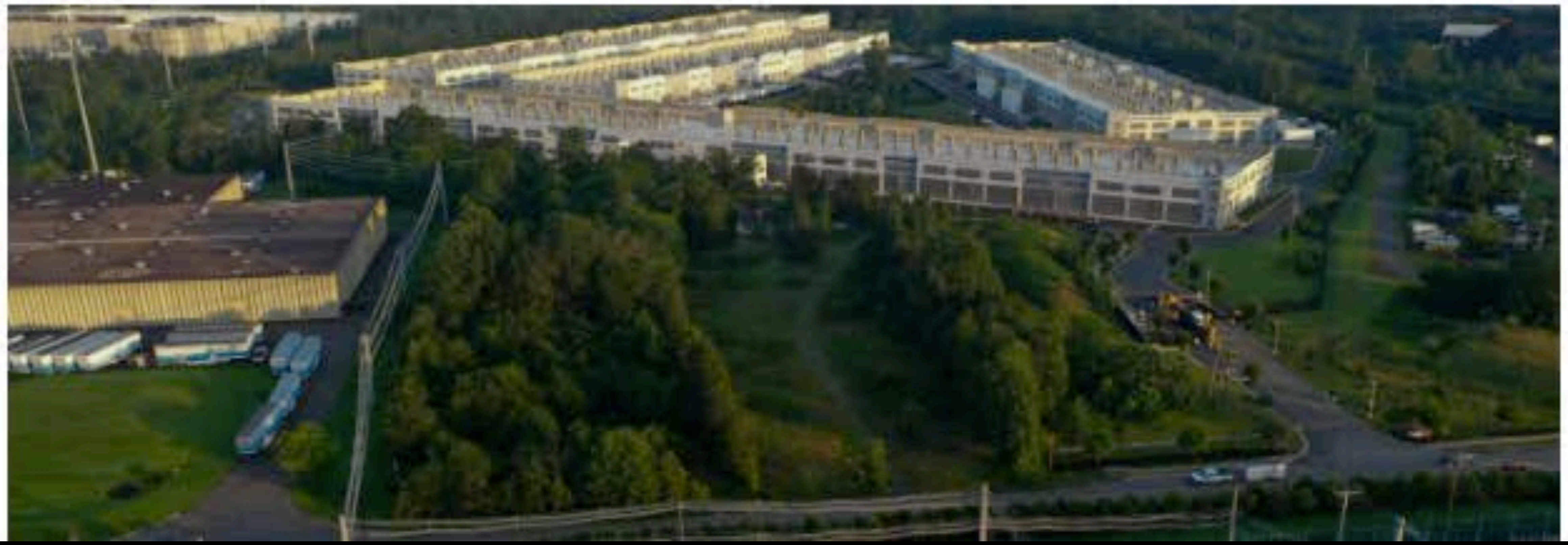
Silver Lake Invests $400 Million to Tackle Data-Center Power Bottleneck

The private-equity firm is looking to bundle land parcels with power availability, which it said is now the biggest obstacle to data-center development

By *Isabelle Bousquette* Follow

Aug. 8, 2025 7:00 am ET

Gift unlocked article   Listen (4 min)



All this investment has to create revenue eventually.

OpenAI $500B valuation $58B raised	Google $85B invested	Meta $70B invested	Anthropic $62B valuation $18B raised	CoHere $62B valuation $18B raised	Mistral $10B valuation $18B raised

Right now NASDAQ stocks are trading at an average 6.75x revenue.

Which would mean that OpenAI needs to get to $74 Billion in revenue just for the most recent investors to break even. So their expectation must be that this can be a >$100B company.

A company that had zero revenue just three years ago.

The big AI questions right now:

1

How will the GenAI Giants ever produce enough revenue (and margins) to justify the capital they have consumed?

Which leads me to the second big question:

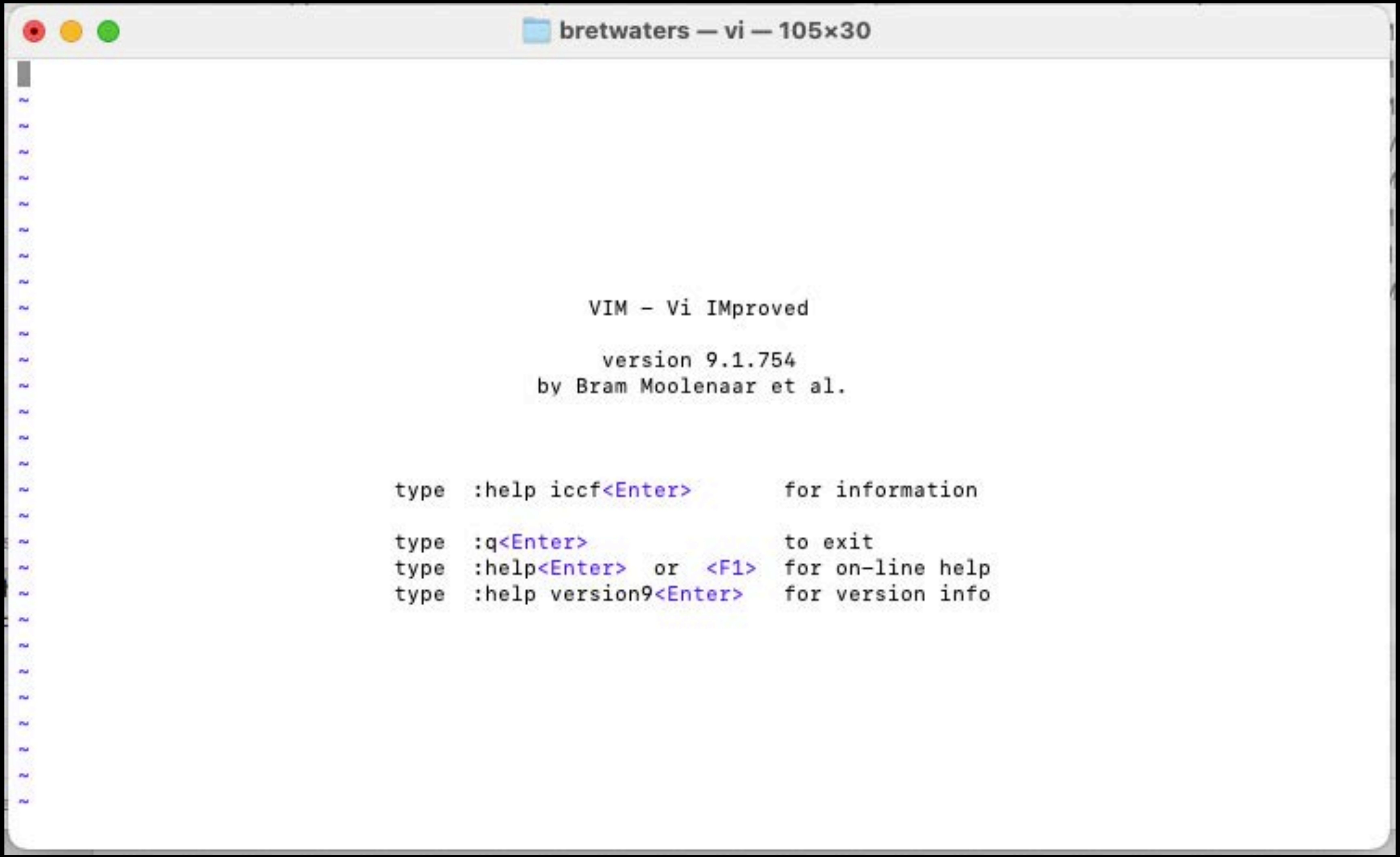
2

Are these universal applications that people use for everything, or are they just an enabling layer and API for other applications?

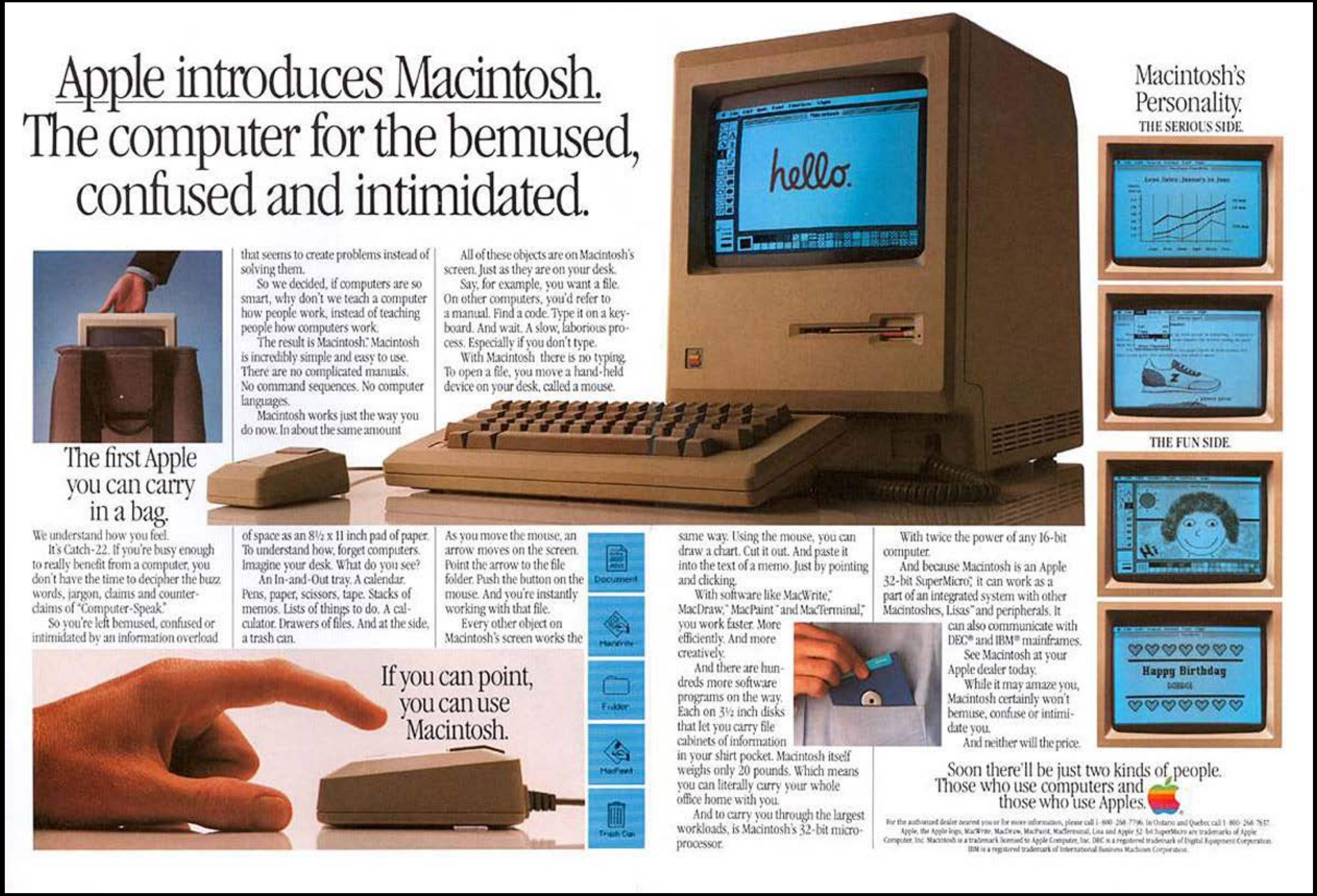
To Loveable they're just an API, but can OpenAI ever live up to their revenue expectations as an API for others?

Which leads me to the third big question:

1960-1984: The standard user interface:



1984: The GUI changes everything.



1985: Microsoft Windows

2007: The touchscreen changes everything.

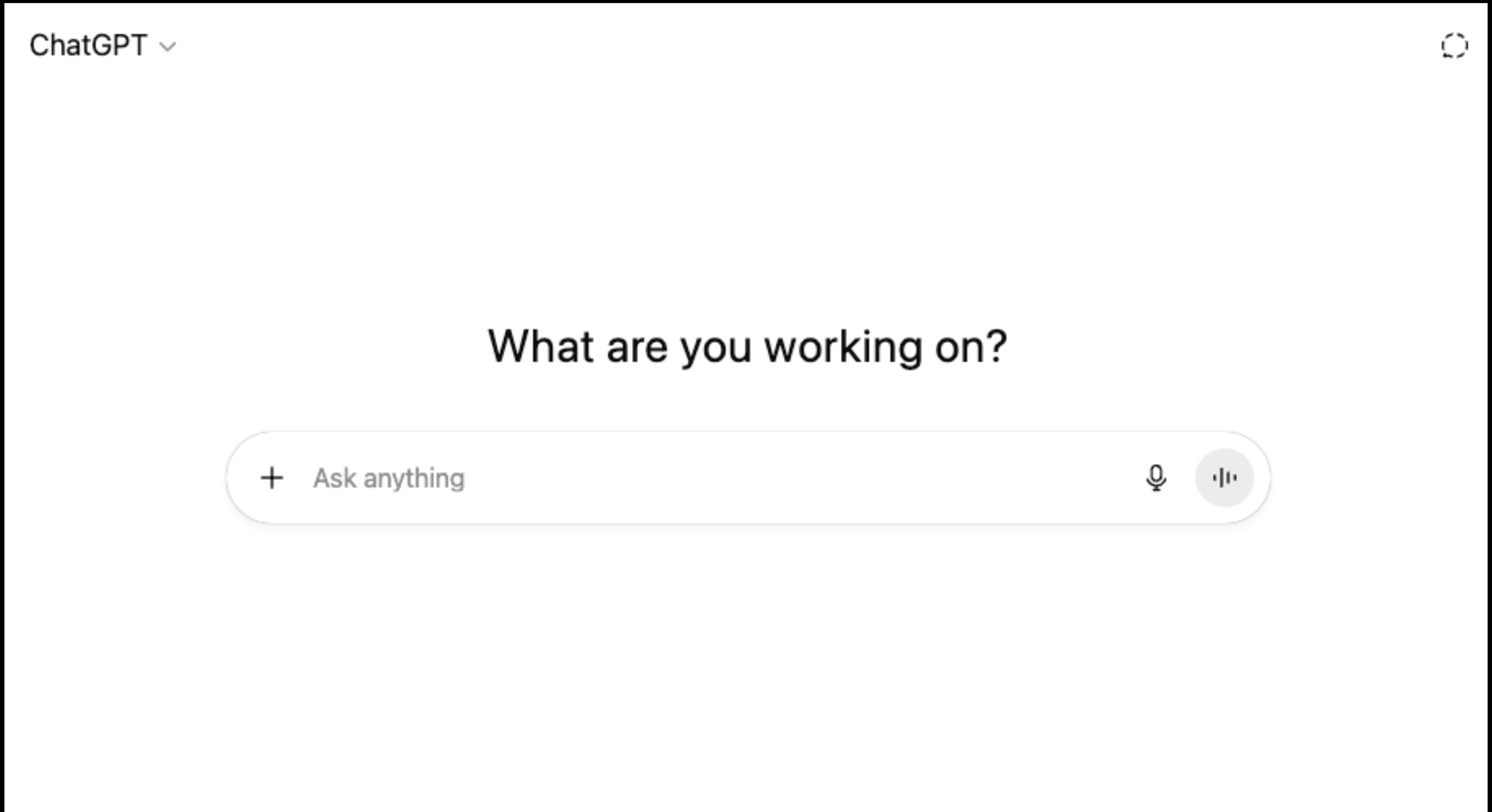
Apple announces iPhone.

2007

Google buys Android.

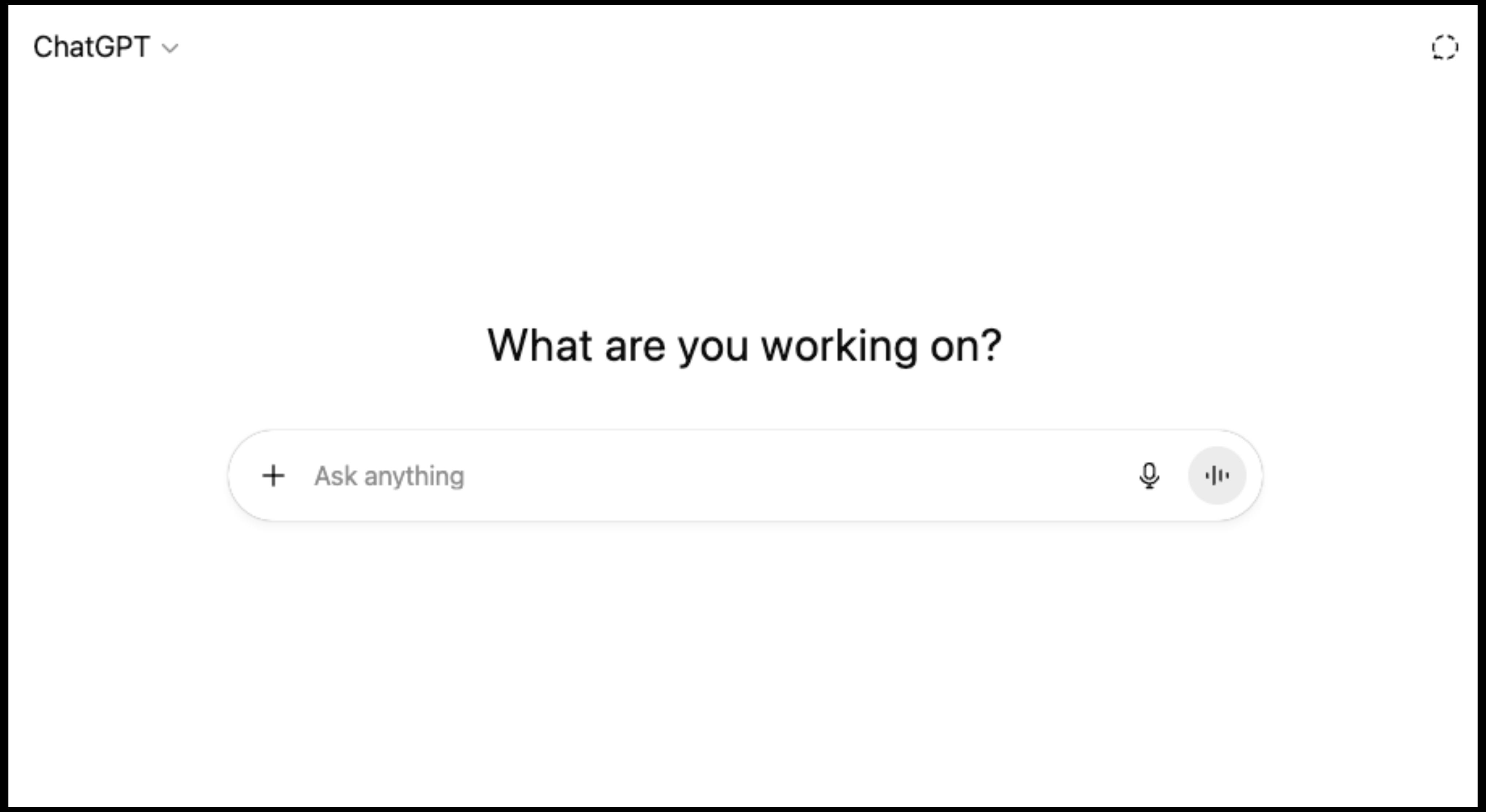
2008

Now we’re back at the command line? Seriously?



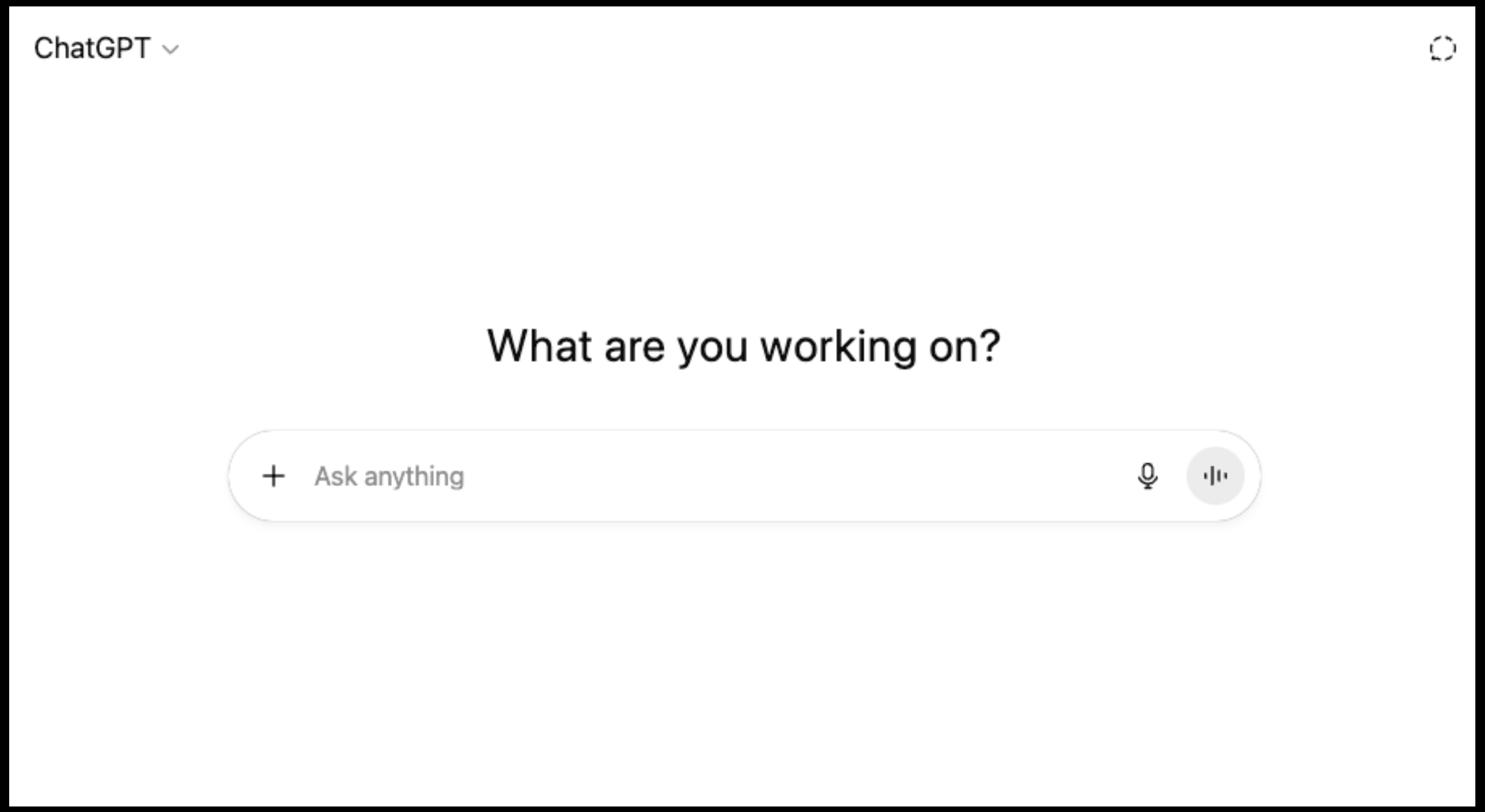
3

Is this really the new user interface?



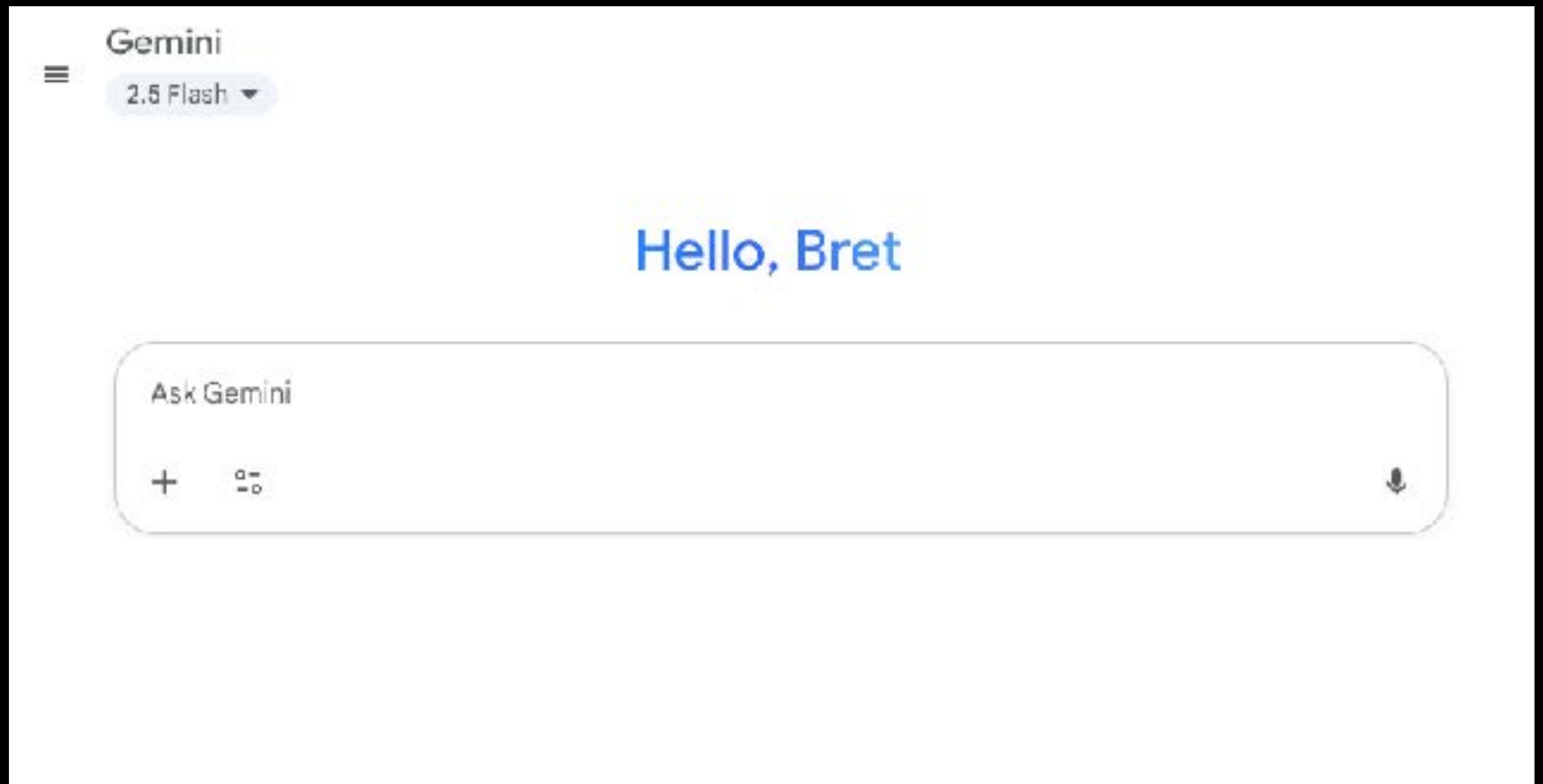
Which leads me to the fourth big question:

From a consumer perspective, there is zero differentiation.



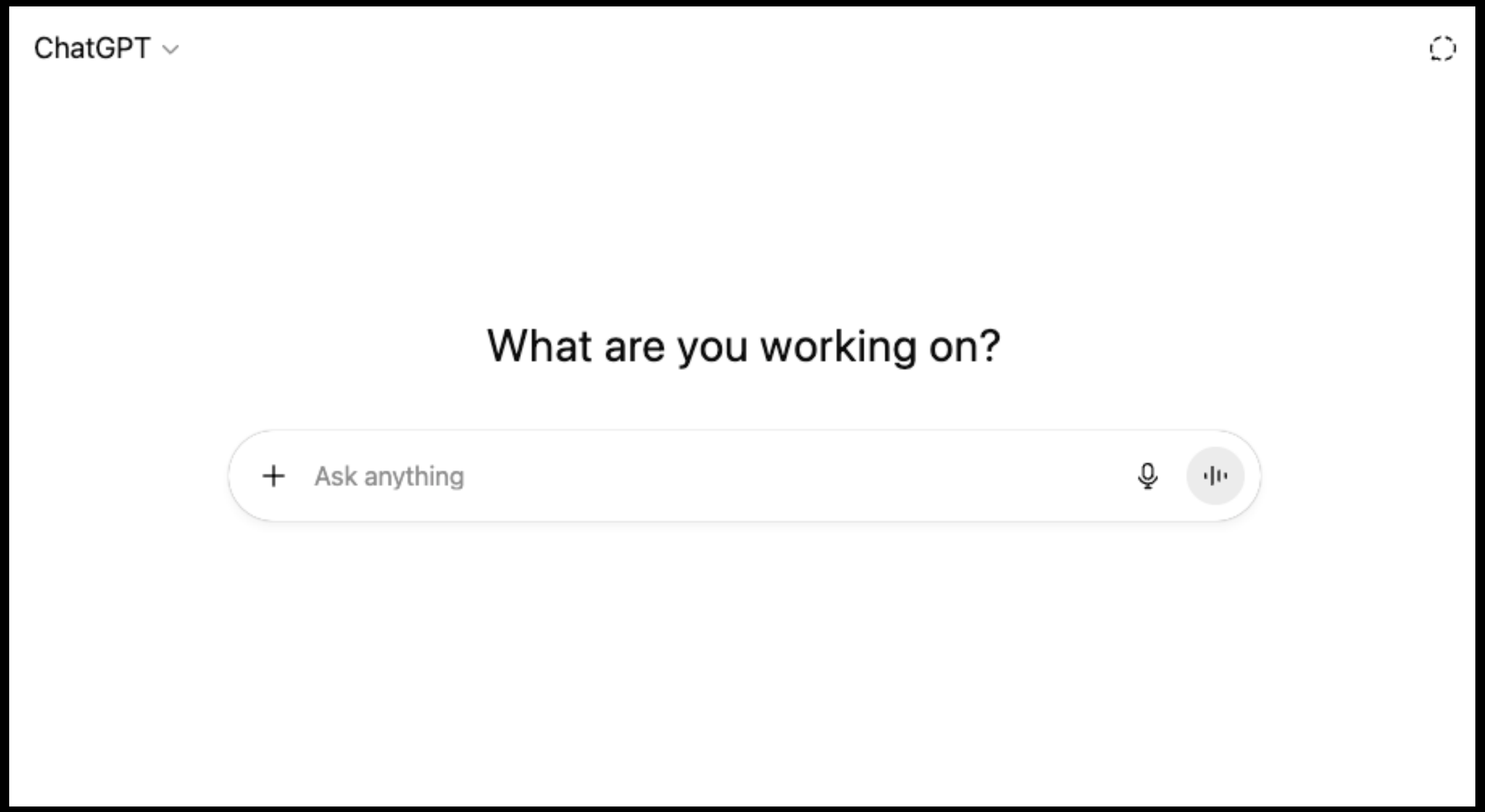
OpenAI
ChatGPT
$58 Billion

Anthropic
Claude
$18 Billion



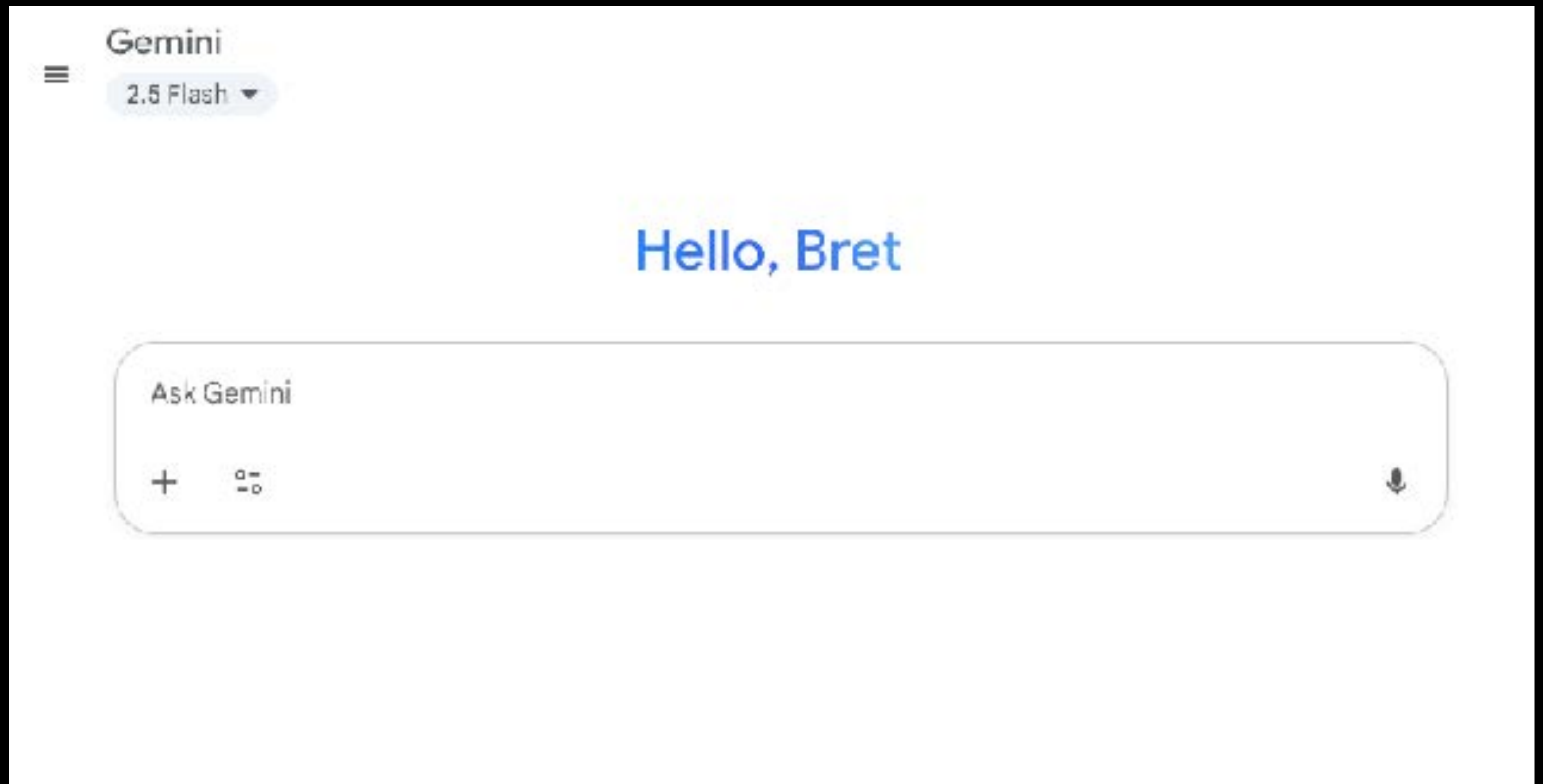
Google
Gemini
$85 Billion

And apparently there isn't much of a moat.

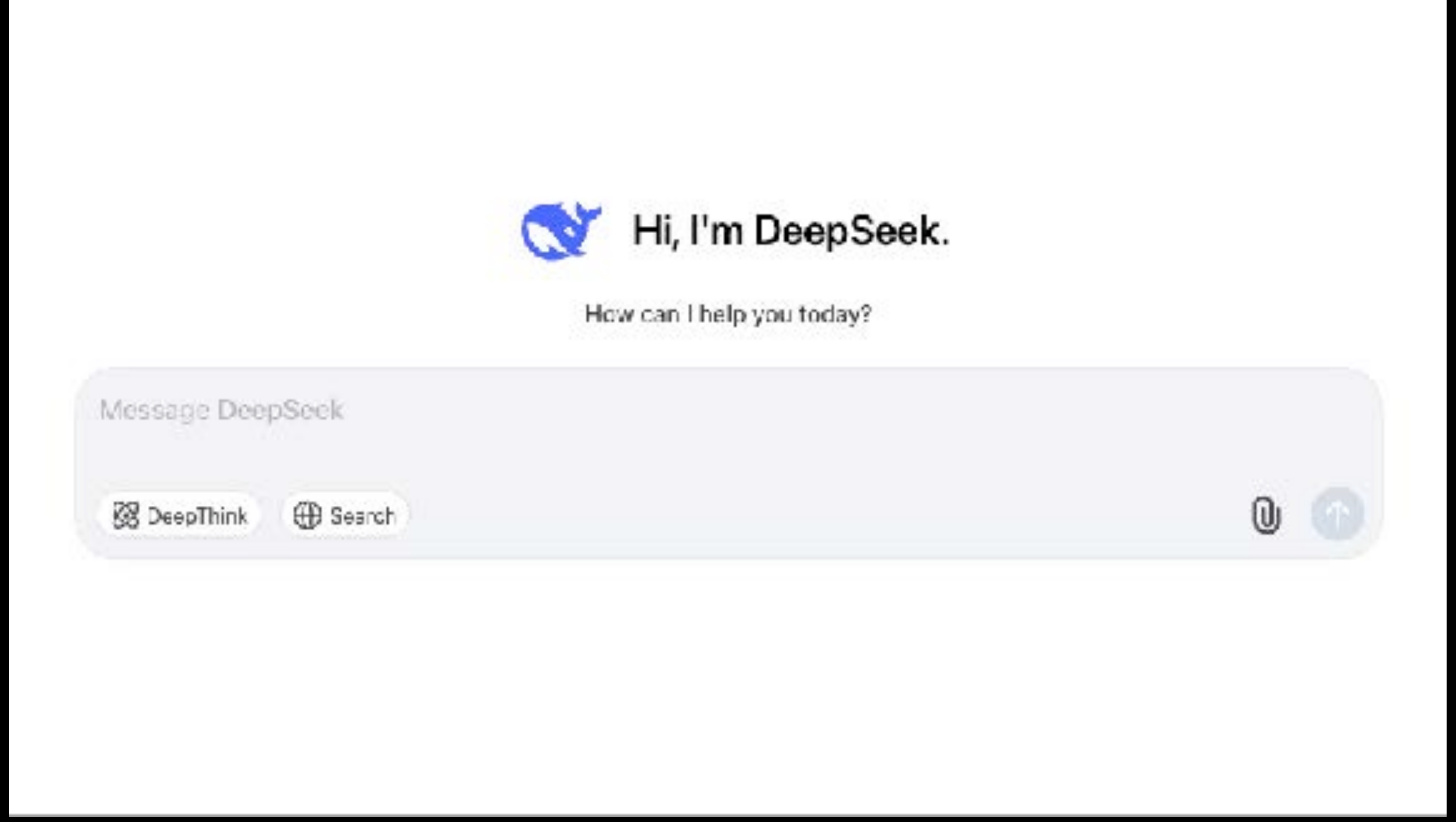


OpenAI
ChatGPT
$58 Billion

Anthropic
Claude
$18 Billion



Google
Gemini
$85 Billion



DeepSeek
<$1 Billion?

GenAI LLM Companies:

High capital investment.

No product differentiation.

No obvious moat.

Low margin, commodity product.

This is a <u>terrible</u> business!

With Voodoo Economics:

- → Users pay $200/year for an AI app like Cursor or Lovable.
- → Cursor pays $500 to OpenAI (the $300 gap burns VC money).
- → OpenAI pays $1,000 to AWS/Azure (the $300 gap burns VC money).
- → AWS/Azure then spends $10,000 on NVIDIA GPUs (Jensen wins)

This is a <u>terrible</u> business!

4

How will the economics of all this eventually shake out?

ANDREESSEN
HOROWITZ

TABLE OF CONTENTS

Posted August 12, 2025

Is Google Screwed? Maybe. But Not How You Think.

The internet's most profitable business model has always been simple: running search ads on monetizable queries. When you search "how many protons are in a cesium atom," Google makes no money. When you search "best tennis racket," it prints cash.

This asymmetry defines the entire search economy–some queries are pure curiosity, and others have direct purchase intent. It's *part* of why Google (where people often search for products) is a $2T company and Wikipedia (where people search for knowledge or fun facts) is a non-profit.

Google could lose 95% of search volume and still grow revenue –as long as it retains the valuable queries, which are largely commerce related. Has Google managed to keep these searches from moving to AI platforms like ChatGPT and Perplexity?

Maybe. In May 2025, Apple SVP Eddy Cue testified during the DOJ's antitrust trial that Safari search volume had declined for the first time in over two decades. The result? Alphabet's stock dropped nearly 8% in a day, wiping out over $150 billion in market cap — all from the hint that queries might be leaking to AI. But fast forward to Google's increasing revenue (including from search!) and it's pretty clear (squaring Eddy Cue's comments with Google's Q2 earnings) that Google is likely only losing low-monetizing queries, at least for now.

“The internet’s most profitable business model has always been simple: running search ads on monetizable queries”.

Justine Moore
Andreessen Horowitz

5

The consumer internet is powered by commerce. Search advertising, affiliate links, content marketing, etc. This is 75% of Google's revenue.

What does this all this activity look like in the AI age?

To me, those are some of the big questions about AI right now.

1. How will the GenAI Giants ever produce enough revenue (and margins) to justify the capital they have consumed?
2. Will the big GenAI companies become universal applications, or an enabling lawyer and API for other applications?
3. Is a command line really the new UI?
4. How will the economics eventually shake out?
5. If traditional search fades away, what happens to monetization of the consumer internet?

Startup Capital Landscape

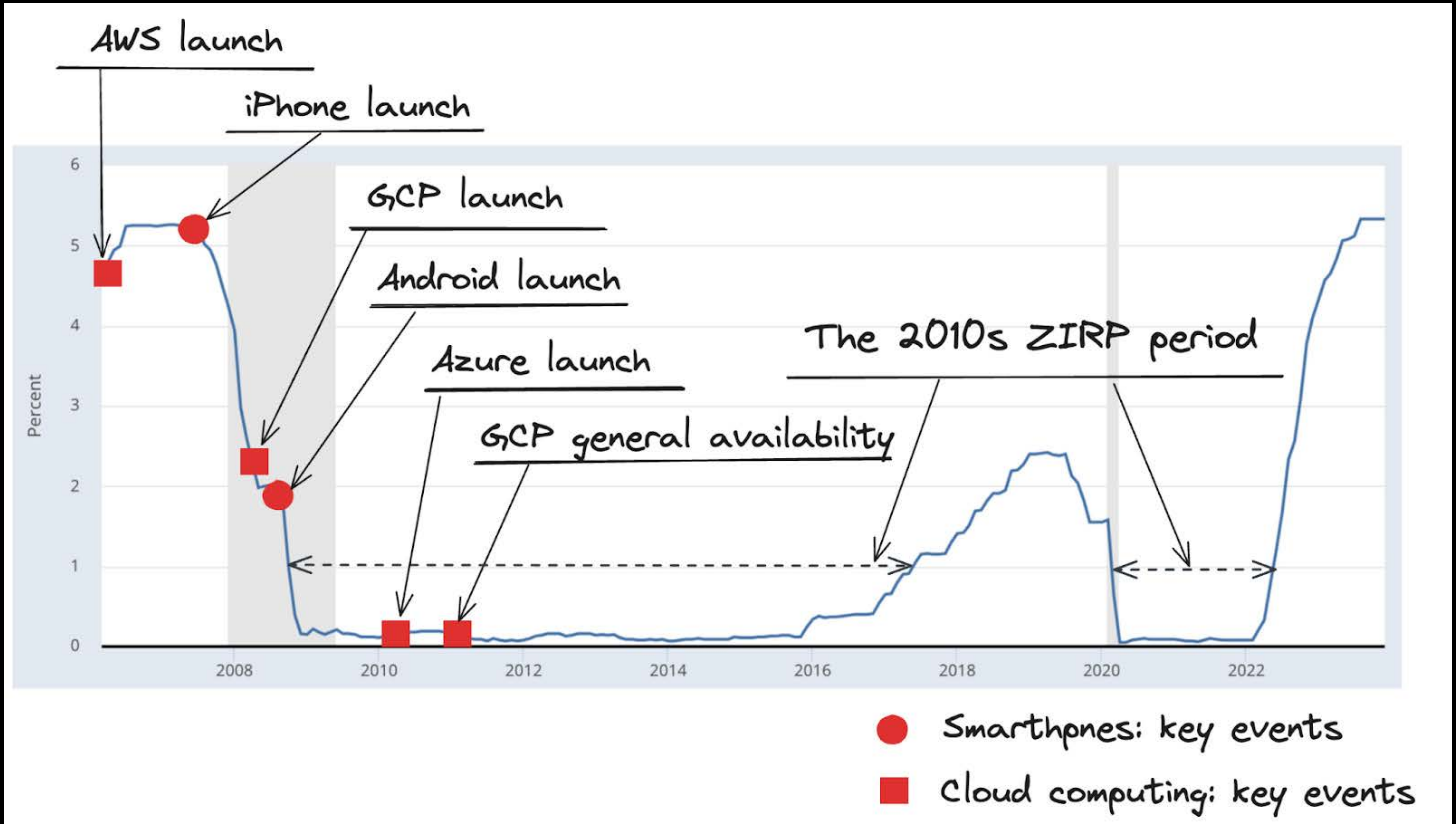
Venture capital has always been a cyclical business.

To understand where we are right now you have to understand the ZIRP period and how it created the biggest cycle ever in 2010-2023

Interest rate set by the Federal Reserve.


e Rate
1985
1990
1995
2000
2005
2010
2015
2020
2025
2010-2023 was the ZIRP period. The Federal Reserve Bank pursued a Zero Interest Rate Policy (ZIRP) that drove billions of dollars into VC funds.

Silicon Valley VCs had a lot of fun.



ZIRP is over now.

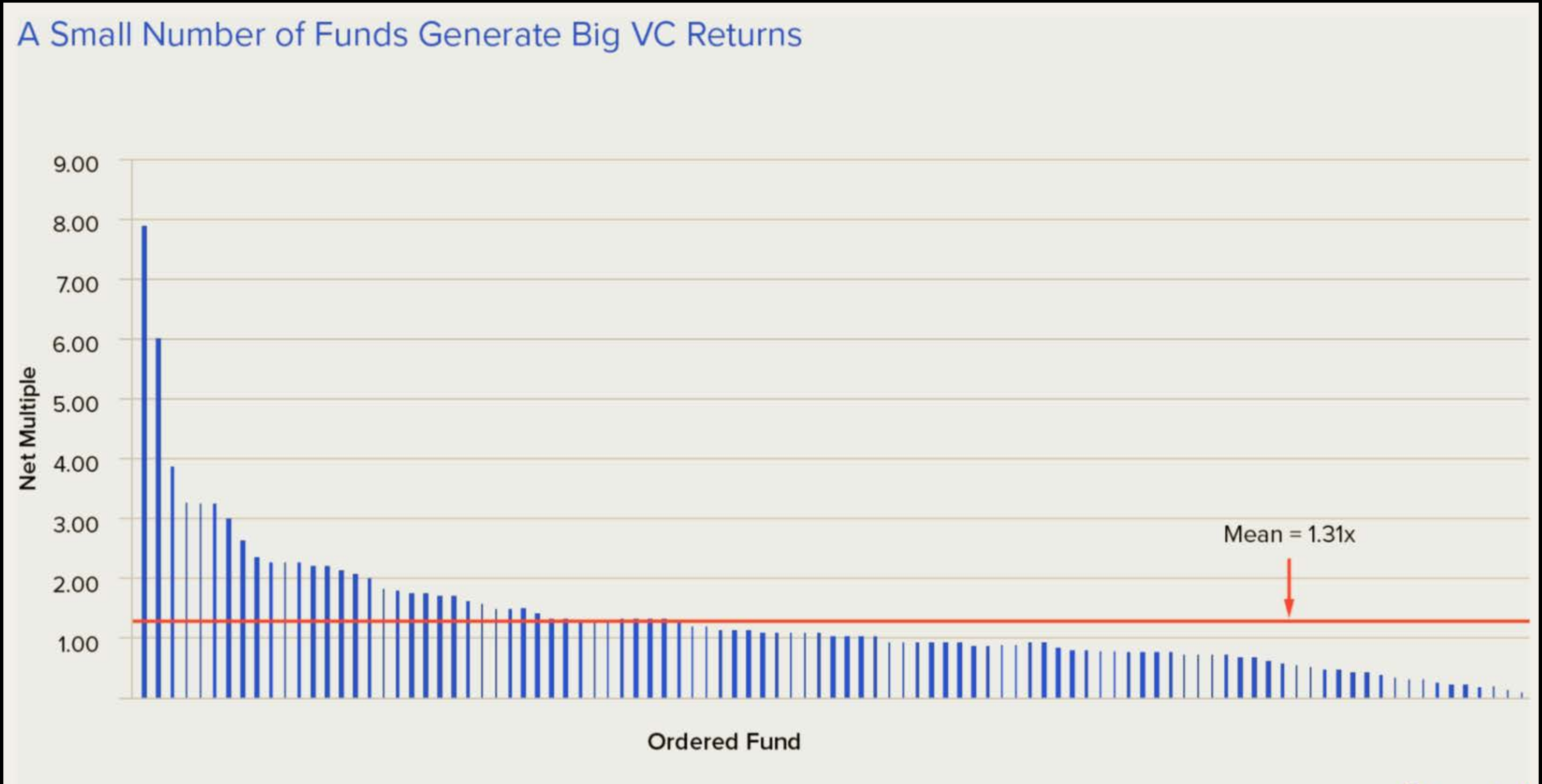
Peak VC happened in 2021, as for the first time aggregate money flowing into VC funds exceeded returns.

One of these years was not like the other ones

Total cash raised by quarter by companies on Carta, Q1 2018—Q1 2025

carta

The dirty little secret: Of 3,000 VC firms, only a very few consistently produce most of the returns.



So, in the post-ZIRP period, most of the money has been flowing into just a few VC firms.

2024 WRAPPED

9 VC firms collected half of all money raised by US funds in 2024

By Rosie Bradbury

Published December 11, 2024

Share:

In 2024, 30 firms raised 75% of all capital raised by VC funds in the US, a powerful signal of how the tech pullback is concentrating influence among the venture industry's heavyweights.

Just nine of them took in $35 billion—half of the total raised, according to PitchBook data.

And just one firm, Andreessen Horowitz, brought in over 11% of all capital raised.

The VC landscape right now:

75% of the money available is all clumped-up in a very few VC giants (a16z, Sequoia, etc).

The Factory Farmed Unicorn methodology of 2010-22 is over.

Cost of capital is higher for everyone.

Because visibility into the ability to raise new funds is limited, VC firms have slowed down the pace of new investment.

All the things wrong with venture capital are about to get even worse.

The truth, the rant, and the fantasy for 2025

Bret Waters 6 min read · Jan 9, 2025

42 3

As we enter 2025, everyone I know is complaining about the venture capital ecosystem in Silicon Valley.

- **VC's** are saying "This is a hard business! I have no idea what the next Uber or Airbnb will be, but I'm sure it will have the letters AI in it!".
- **Limited Partners** (who provide the capital to the VC's) are saying "Your fund results are terrible — a blind pig with an index fund could do better!".
- **Startup Founders** are saying "I have an incredibly awesome startup but all the stoopid venture capitalists just aren't interested!".

Oliver Dar

Opportunity for VC innovation?

The VC business hasn’t changed in 50 years.

VCs raise money on the 2-and-20 system, buy equity in startups, wait 8-12 years for liquidity, then dissolve the fund and create a new one.

The VC giants will continue to operate this way, because it’s been good to them.

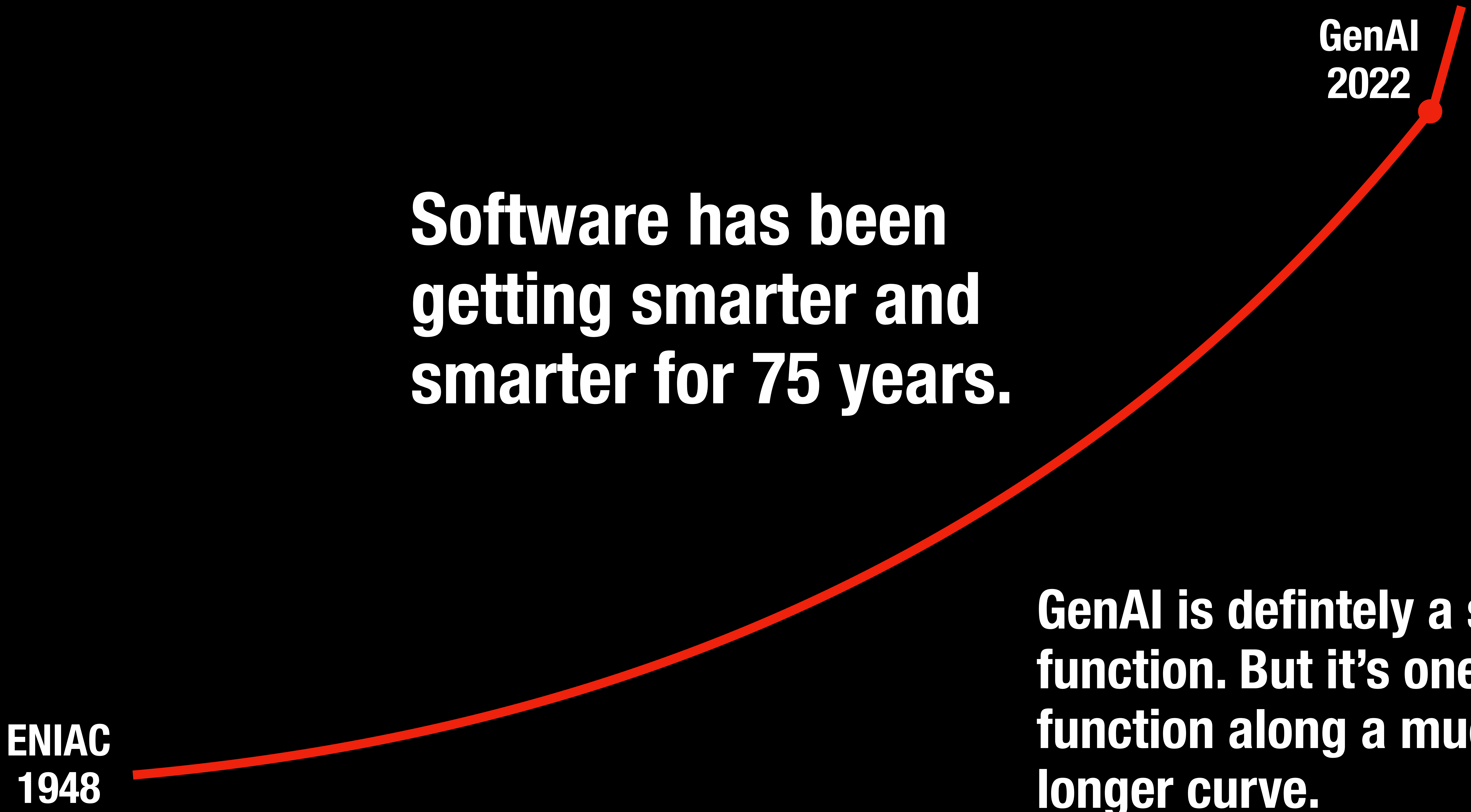
For the other 2,900 VC firms, there is a huge opportunity for innovation.

What does all this mean for startup founders?

I predict that five years from now no one will be talking about AI as a separate category.

Ultimately, it’s just smart software.

Software has been getting smarter and smarter for 75 years.



GenAI is defintely a step function. But it’s one step function along a much longer curve.

Key takeaways for founders:

1 Ultimately, it’s just smart software.

Five years from now no one will be talking about AI as a separate category.

So having a .ai domain may seem cool today, but your startup needs to be simply focused on delivering great value to actual paying customers, just like any other software company.

Overbuilt and over-capitalized.

Purpose-built Applications.

LLMs

GPUs and other AI-specific infra.

Servers, Infrastructure, DBs

2

Key takeaways for founders.

Opportunity is at the top of the stack.

Purpose-built Applications.

Overbuilt and over-capitalized.

LLMs

GPUs and other AI-specific infra.

Servers, Infrastructure, DBs

So many B2B SaaS apps:

- Small businesses (under 50 employees): An average of 21 SaaS applications ea.
- Mid-sized businesses (50-99 employees): Around 32 SaaS applications ea.
- Mid-sized businesses (100-499 employees): Around 61 SaaS applications ea.
- Large organizations (1,000+ employees): Around 200 SaaS applications ea.
- Enterprises (over 10,000 employees): 473 or more SaaS applications ea.

Source: DemandSage

So many B2B SaaS apps:

- Small businesses (under 50 employees): An average of 21 SaaS applications ea.
- Mid-sized businesses (50-99 employees): Around 32 SaaS applications ea.
- Mid-sized businesses (100-499 employees): Around 61 SaaS applications ea.
- Large organizations (1,000+ employees): Around 200 SaaS applications ea.
- Enterprises (over 10,000 employees): 473 or more SaaS applications ea.

In the next few years, every one will be replaced by AI-native apps.

Key takeaways for founders:

3 SaaS is dead. Long live SaaS.

Hundreds of incumbent B2B SaaS apps will be replaced by new AI-native applications.

Be one of those.

Key takeaways for founders:

4 2021 is not coming back.

Rethink your capital strategy.

The Factory Farmed Unicorn model that produced Uber and Airbnb is not your path to success today.

Raise less, do more.

Key takeaways for founders:

5 Raise less, do more.

The trends right now are toward bootstrapping, seed strapping, and running with smaller teams.

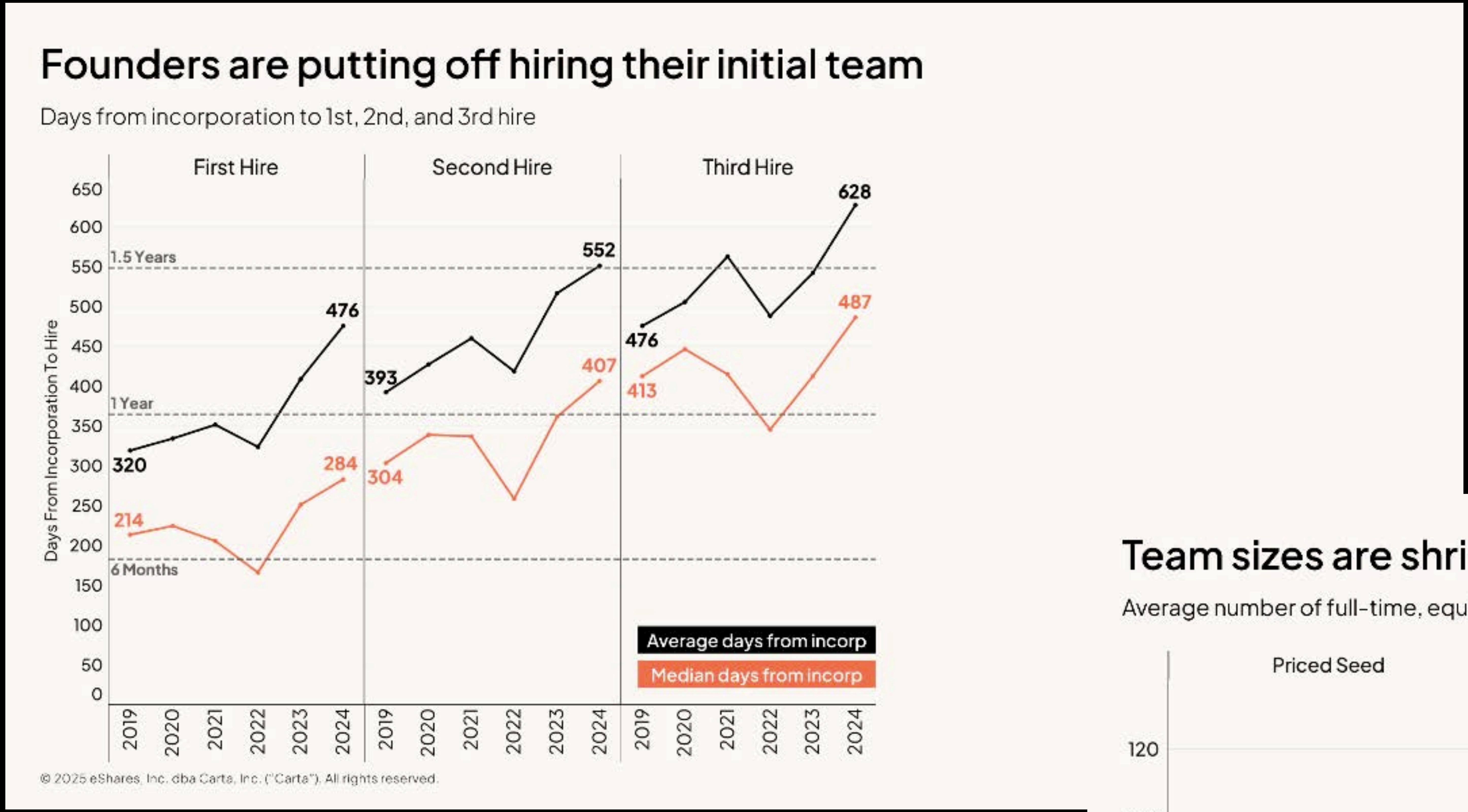
Because the power of AI allows you to do more with less.

Solo-founded startups became more common

Distribution of founding team size across 43,492 US startups on Carta | Includes startups with and without VC funding

Year	1 Founder	2 Founders	3 Founders	4 Founders	5 Founders	Startups
2015	17%	32%	25%	15%	11%	2,619
2016	18%	33%	26%	14%	9%	2,581
2017	17%	33%	25%	14%	11%	3,047
2018	21%	33%	23%	14%	9%	3,686
2019	23%	34%	23%	11%	9%	4,379
2020	24%	35%	22%	11%	9%	5,315
2021	25%	34%	22%	11%	8%	6,673
2022	27%	38%	20%	9%	6%	5,762
2023	29%	36%	20%	8%	6%	5,666
2024	35%	37%	16%	7%	4%	3,764

carta



Founders are putting off hiring their initial team
Days from incorporation to 1st, 2nd, and 3rd hire
First Hire
Second Hire
Third Hire
Days From Incorporation To Hire
650
600
550
500
450
400
350
300
250
200
150
100
50
0
1.5 Years
1 Year
6 Months
476
320
284
214
552
393
407
304
628
476
487
413
Average days from incorp
Median days from incorp
2019
2020
2021
2022
2023
2024
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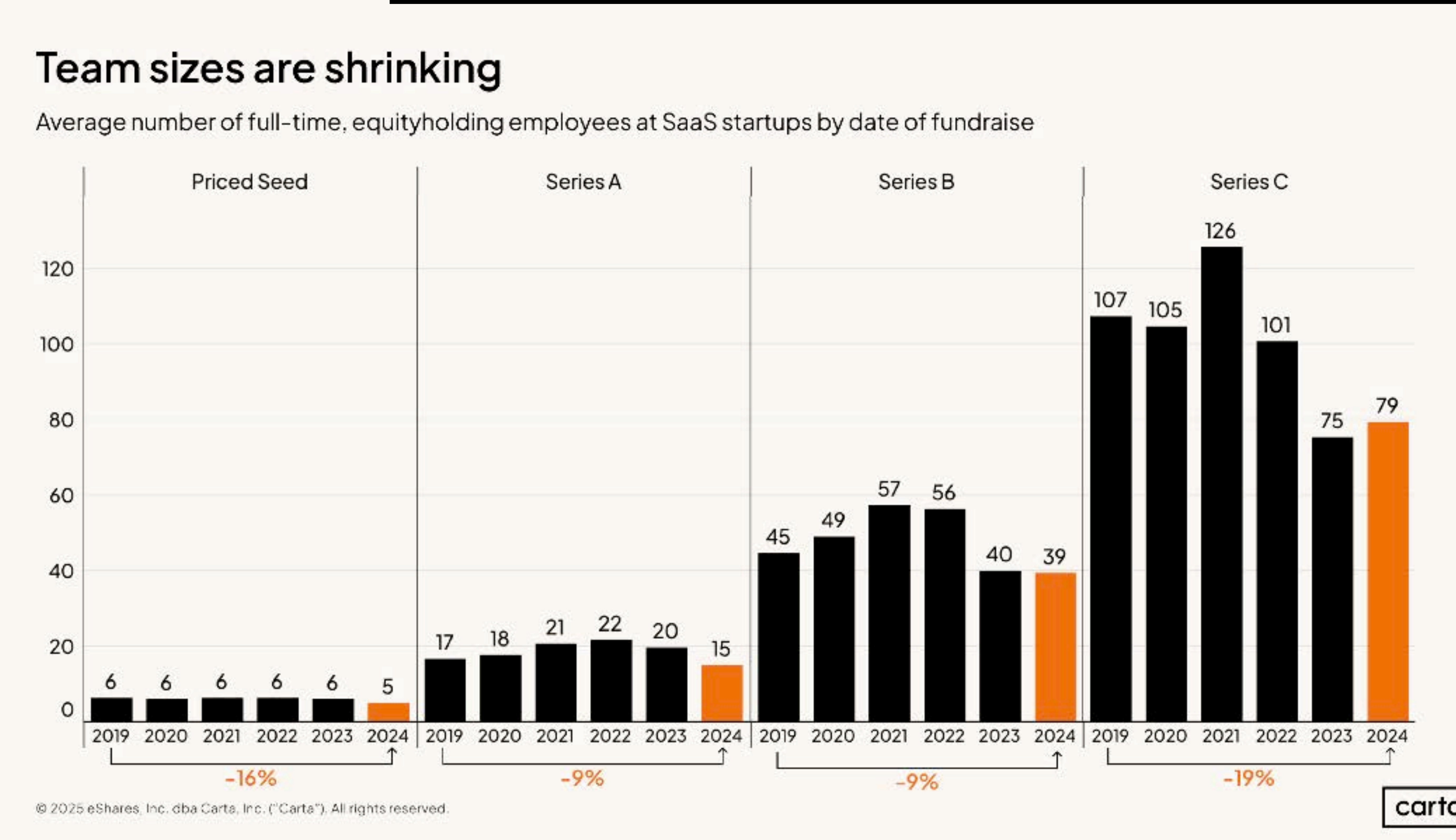

Team sizes are shrinking
Average number of full-time, equityholding employees at SaaS startups by date of fundraise
Priced Seed
Series A
Series B
Series C
120
100
80
60
40
20
0
6
6
6
6
6
5
17
18
21
22
20
15
45
49
57
56
40
39
107
105
126
101
75
79
2019
2020
2021
2022
2023
2024
-16%
-9%
-9%
-19%
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Raise some seed, and then succeed.

The Information

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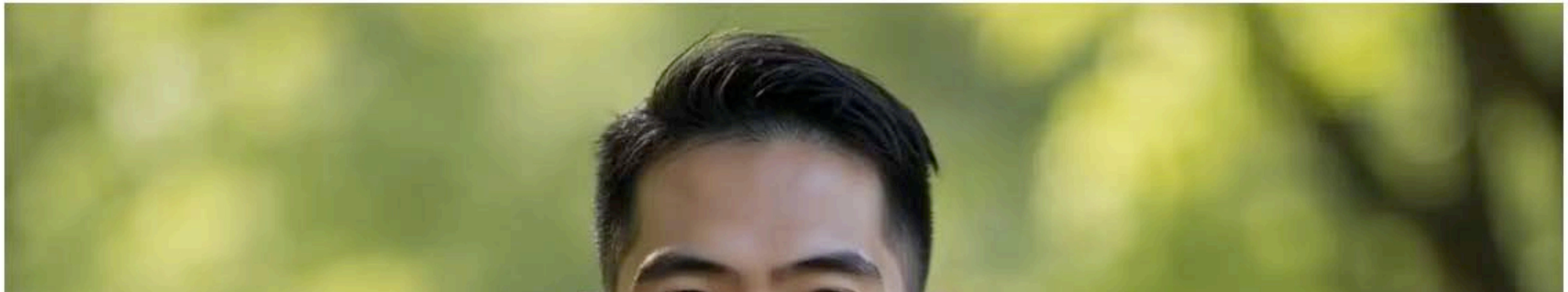
Pro | Org Charts | Tech | Finance | Weekend | Events | TITV | Community | More

Answer tough business questions, faster than ever. Upgrade to ask Deep Research →

Dealmaker

Why Early-Stage Founders Are Opting to 'Seed-Strap' Their Startups



Key takeaways for founders:

6 Agility is your superpower.

The biggest advantage that any startup is that it is more agile than its incumbent competitors.

This is especially true today, because you are an AI-native startup with a small team.

Don’t mess that up.

Key takeaways for founders:

7 In 2025, your technology is not a moat.

I know you're very proud of your tech, but a competitor could probably copy it with vibe coding and a gallon of coffee.

Your moat is more likely to be customer relationships, vertical-specific domain expertise, user experience, and old-fashioned ROI you provide to your B2B customers.

8

Key takeaways for founders:
Slow down. Get to PMF.

Basic principles still apply.

Reading funding announcements creates FOMO which creates sloppy execution.

Fundraising is not a success metric. Happy, paying customers is what matters.

Even in the AI age, the startups that win will be the ones who take the time to really understand customers and deliver value to them.

If you do that, the investor dollars will follow.

tl;dr:

AI is eating the world, and the bottom of the stack is over-eaten.

Lots of opportunity at the top of the stack.

Hundreds of incumbent SaaS apps will be replaced. Be one of those.

The capital landscape is very different today. Seedstrapping is your friend.

Be agile, be small. That's your competitive advantage.

Your tech will not be your moat. Find other moats.

Remember that ultimately it's just smart software, and normal PMF principals still apply.

Thank you.

I’d love to connect and talk further.

I’m “bretwaters” on Instagram, LinkedIn, etc.

or bretw@stanford.edu