

How to Get and Evaluate Startup Ideas | Startup School



Video URL

Finding a promising idea

Reference

all right hello everyone I've got a lot of content to get through so I'm gonna move fast Buckle in if you are looking for a startup idea right now I'm going to try to help but more importantly I'm going to try to give you the conceptual tools to think about startup ideas in a sophisticated way the way that we think about them at YC here's the thing uh no one not even YC knows for sure which ideas will succeed and in any case if your idea succeeds has much to do with how well you execute as your initial idea anyway but certain ideas are much more likely to succeed than others and so my goal here is to help you stack the deck in your favor by

Where does this advice come from?

Reference

places first I analyzed the top 100 YC companies by evaluation and I looked at how they all got their idea so I started with some hard quantitative data on how recent billion dollar companies actually came up with their idea it also draws on a classic essay by Paul Graham that I really recommend it's called how to get startup ideas um it also comes from helping YC companies that pivot in the middle of the batch and learning over the years what advice helps them to find a new good startup idea and then finally it comes from Reading thousands

of YC applications that we rejected and looking at the mistakes that caused good Founders to come up with bad ideas and those are the mistakes I want to help you all avoid this Talk's got three parts first I'm going to tell you the most common mistakes Founders make with startup ideas then I'm going to talk about how to know

4 most common mistakes

Reference

most common mistakes with startup ideas so the most common mistake is just building something that doesn't solve a real problem for your users typically you can articulate the problem that you're solving you can put it in words but when you actually go and talk to the users it's just not something that they really care about we call it a solution in search of a problem or a cisp let's go through an example so a lot of Founders come up with an idea with this kind of thought process they go hmm AI is cool what could I apply AI to and then they go look for a problem that they could solve with AI That's a solution in search of a problem and the reason it's dangerous is that if you do that you'll probably find a problem but it will be a superficially plausible problem it'll be a made-up problem that people don't really care about rather than a real problem that people actually care about and if people don't really care about the problem they won't really care about your solution so instead you want to fall in love with a problem the best way to find a startup idea is to start with a high quality problem now Sunrise Founders hear this and they decide to interpret that as guidance to work on some like huge societal problem like I don't know Global poverty or something um no doubt those are real problems but they're they're too abstract to make good starting points for startup ideas you need something that's more specific something that's tractable with a startup the next mistake is getting stuck on what we call tar pit ideas what's a tar pit idea so there's this certain set of common startup ideas that have been around for forever they have been applying inroves to YC batch after batch for years and when founders start working on these ideas it's like they've gotten stuck in tar they never seem to go anywhere so we call them tar pit ideas here's what causes tarpit ideas they all form around some like widespread problem that lots of potential Founders encounter and it's a problem it seems like it could be easily solved with a startup but it's an illusion there's actually a structural reason why it's very hard or impossible to solve which is why after all these years no one has solved it and you can see why ideas like this would be so dangerous why they will cause so many Founders to waste months of their life stuck on a tarpit like they're very tantalizing from a distance because they're so superficially plausible as startup ideas here's a concrete example this is a very common tarpit idea that's been applied to YC for like 20 years this is like the stereotypical college student idea and it goes like this you think man every Friday or Saturday Saturday night when I'm making plans to meet up with my friends it's so inefficient I'm in all these different text threads and chat groups and we're like trying to make plans

to meet up I'm just going to make an app to make it more efficient Well turns out that there are some structural reasons why this idea is hard which is why in like 20 years of people applying to YC with this idea nobody has actually pulled it off you can see why so many people have been attracted to it it's like it's a problem that almost everyone encounters at some point and it seems like it would be so easy to solve like you can just imagine the app it's just got like a list of events and you invite friends to it like it seems so simple the thing about target ideas is that they are not necessarily impossible like I'm even open-minded that somebody will eventually make the like app to meet up with your friends idea of work is more accurate to think of them as common ideas that are much harder than they seem so if you want to work on one um here's my advice first Google it it's amazing how many Founders skip the step of just like Googling for their own startup idea to see who has worked on it in the past you should find who's worked on this in the past and actually talk to them if you can try to figure out what the hard part of this idea is that has caused other people to not be able to solve it yet the next mistake is simple it is amazing how many Founders will basically just like jump into the first idea they have without even stopping to consider whether it would actually make a good business but more dangerous is the founders on the opposite side of the spectrum who sit around waiting for the perfect startup idea and of course there is no such thing so these people just never actually start a company so if you imagine that there's like a spectrum between picking the first idea that comes to mind and waiting for the perfect idea and you know somewhere in the middle there is this like happy place which is the place that you want to be right and the way that Paul Graham put this is that you should think of your idea as a good starting point new startup idea is perfect and no matter what you start with it's probably going to morph anyway so you just want

10 key questions to ask about any startup idea

Reference

the right direction so now suppose you have a startup idea and you want to know if it's good I'm going to give you a framework for this and the format of the framework is 10 key questions to ask about any startup idea so the first one is do you have founder market fit if I depict like one most important criteria it'd probably be this one and what I mean by founder market fit is just are you the right team to be working on this idea and a great example of what good founder market fit looks like is plan grid so plan grid makes an iPad app to view construction Blueprints and to the founders of plan grid were Tracy and Ralph and Tracy had worked in the construction industry and she knew a lot about construction and Ralph was an awesome developer who was like the perfect person to build this iPad out if you're going to imagine a team to start playing grid the team that you would imagine would look you know something like that and that's what good founder market fit looks like it's like this team is obviously the right team to work on the idea in fact founder market fit is so important

that I would recast your search for a startup idea when most people go to pick a startup idea they try to look for a good startup idea like in the abstract and instead I would think about this exercise as an exercise to pick a good idea for your team you with me it doesn't matter if something is a good startup idea for someone else if it's not a good idea for your team so you may as well just look for ideas that you would actually be good at executing okay number two how big is the market obviously you need a big Market which for startups typically means like a billion dollar market but actually less obviously there are two kinds of markets for startups that are good um ones that are big now and ones that are small but rapidly growing and an example of the second one is coinbase so when coinbase got started in 2012 the Bitcoin trading Market was minuscule but even at that time it was pretty obvious that if Bitcoin succeeded the way people hoped that it would that this would eventually be a billion dollar market number three how acute is this problem so as I said earlier the most common mistake is just like working on something that just isn't really a problem or it's just not a problem that people care enough about um here's an example of the opposite here's an example of what a good problem looks like Rex so Brax from Winter 2017 makes a credit card for startups and before brex if a startup NYC wanted a corporate credit card they literally could not get one because a no bank would give a credit card to a startup that's a good problem like if you're if the alternative to your solution is literally nothing that's what a good problem looks like okay next do you have competition now most Founders think that if you have competition that that's bad but counter-intuitively it is the opposite most good startup ideas have competition but if you were going up against especially entrenched competition you typically need a new insight next one is like do you want this personally do you know people personally who want this it's amazing how often people start companies where the answer to both these questions is no if that's the case you definitely got to worry that you know maybe nobody wants this so definitely time to go talk to some users only recently become possible or only recently become necessary so something has recently changed in the world like a new technology regulatory change or a new problem that is often what creates a new opportunity and a great example of this is company called Checker which does background checks via VIA an API so it's an API for doing background checks on people and roughly the story of Checker is delivery services like doordash and instacart and Uber started to take off and they were all hiring huge pools of delivery people and workers and they needed to run background checks on all of these people and there were at the time already a bunch of large existing companies that run background checks but they weren't well suited for this very new use case and that is like exactly the kind of change in the world that creates a new opportunity let's talk about proxies so a proxy is a large company that does something similar to your startup but it is not a direct competitor and so um a good example of this in practice is a company called rapid which does food delivery in Latin America and when rapping got started there were already a few delivery companies in other parts of the world like doordash they're doing very well they just hadn't caught on in Latin America yet and so doordash was a great proxy to show that

this idea of doing food delivery in Latin America would probably work is this an idea you'd want to work on for years but this is a tricky one like sure if the answer to this question is yes that's a good sign but often it's not often an idea grows on Founders over time as it starts to work as I'm going to talk about in a moment a lot of the best startup ideas are in boring spaces like tax accounting software or something like that like no one is particularly passionate about like nobody starts off being passionate about tax accounting software um but tax accounting software is probably a good business and if you're actually running a successful business you tend to become passionate about it over time okay is this a scalable business so if you're building pure software the answer is yes because software skills infinitely and you can just like check this one off um the place for Founders most often get into trouble here is with Services businesses like agencies or Dev shops anything that requires like high skill human labor in order to serve your customers okay and my last question is is this a good idea space which of course means I need to tell you what an idea space is this is a concept from my colleague Dalton who you'll hear from later in this course an idea space is like one level of abstraction out from a particular startup idea it is a class of closely related startup ideas like software for hospitals or infrastructure monitoring tools or food delivery services and here's the thing different idea spaces have wildly different hit rates over the last 10 years if you started a company that did like fintech infrastructure or vertical SAS for Enterprise the the probability that your company became a billion dollar company was astonishingly High whereas if you started something in consumer Hardware or social networks or ad Tech the success rate was like orders of magnitude lower and I can't say that that will continue to be the case for those specific areas because spaces flipped from hot to cold over time but it is still worth thinking about picking a good idea space and a good idea Space is really just one that like you expect is going to have a reasonable hit rate for new startup ideas and one that has founder market fit that way even if your initial idea isn't quite right there are probably good adjacent ideas that you can sort of like drift into I'm going to give a good example of like how this played out in practice so a good example of picking a good idea space is this company called 5tran from yc1213 and basically it's already 5tran is they started making this tool for data analysis and they went to some companies and they tried to sell it and the companies didn't want it so they pivoted and they built a different tool for data analysis and they went back to the same companies and they tried to sell them that one and the companies didn't want that either but each time they went to companies and tried to sell them some tool for data analysis they would learn more about what those companies actually wanted and So eventually they sort of stumbled into an actual problem into an actual tool for data analysis that companies actually wanted and this is why picking a good idea space to start with is so important like because the five Tran Founders were shopping for ideas and a fertile idea space they put themselves in a good position to like bump into a good startup idea if they

3 things that make your startup idea good

Reference

okay before I talk about how to generate startup ideas I've got one important topic to tell you about these are three things that make your startup idea seem bad but actually make them good and the reason that they make them good is that most Founders will shy away from ideas like these which leaves them on the table for smarter Founders to go and grab them and here they are ideas that are hard to get started ideas that are in a boring space and ideas that have existing competitors ideas that are hard to get started so Paul Graham wrote a terrific article about this called schlep blindness which I'd really recommend reading and the example that Paul discusses is stripe you all know stripe they make it easy to integrate credit card payments to your website and the fascinating thing about stripe is that when stripe launched there were thousands of developers who already knew that this was a problem they had tried to integrate credit card payments to their site and they realized that the existing options sucked but strangely not one of them even tried to start striping and it's kind of a kind of a fascinating question why nobody else tried when so many people were in a perfect position to see this problem and the reason is that getting started building stripe required some things that seemed really hard you had to get a special deal with a bank you get to learn a lot about the nitty-gritty details of credit card infrastructure those things seemed so hard that they scared off all the other people who might have started stripe which caused them to leave this like 100 billion dollar opportunity on the table for the stripe Founders to go and pick up okay the second one is ideas that are in a boring space and a great example of this is Gusto which makes payroll software payroll software pretty boring right the thing is there are thousands of people who must have realized that payroll software sucked but because it was kind of a boring problem nobody tried to fix it until the Gusto Founders came along and the thing is that because most Founders shy away from ideas like this boring ideas like payroll software have a much higher hit rate than fun ideas like apps to find new restaurants to eat at or like apps to find the next song to listen to something like that like fun ideas get picked over boring ideas get left on the table for a long time now you might be thinking Jared why would I want to work on a boring idea that sounds you know boring but here's the thing even if you work on an idea that sounds fun at the outset the day-to-day reality of your startup is going to be mostly the same anyway either way you'll be mostly writing code fixing bugs talking to users like pretty much the same stuff and so I would argue that once the initial excitement of your idea has worn off and you are 6 or 12 months in and you are grinding out the execution that makes your idea actually work how fun the initial idea sounded actually has little to no correlation with how much fun you will actually be having working on your company and the last one is that Founders incorrectly shy away from spaces where there are existing competitors counter-intuitively most startup ideas most good startup ideas have existing competitors when founders go into spaces with no existing competitors

they often find out that the reason that there are no competitors is because no one wants the product a great situation is actually a market where there are existing competitors but you've noticed something that they all seem to have missed or they all just kind of suck a classic example of this is Dropbox so when Dropbox launched they were already about 20. cloud-based file storage companies Dropbox was like the 20th company and it's space to launch naively you might have thought that that made this a bad Market I mean you would have gone and looked and said like oh there are already 20 competitors it seems like a bad Market to go into but if you were Savvy about startup ideas you would have realized that it actually made it a great Market and the reason is that even though there were like 20 companies doing this most people didn't use any of them and that strongly suggests that there actually was a problem here but the existing products hadn't solved it and Drew the founder of Dropbox had a very specific insight about what all of them were missing his Insight was basically their UI sucked and the reason their UI stopped was that at the time the way that they all worked is you had to like go to their website and manually upload your files one at a time into their website which sucked of course and Drew had really a technical Insight which was that if he integrated directly into the host operating system he could just sync your files automatically without you having to do anything and that was a real step function change in

How to come up with startup ideas

Reference

let's talk about how to come up with startup ideas so it is possible to sit down and explicitly think of startup ideas and in a moment I'm going to talk about how to do this but it is actually not the best way the best way to have startup ideas is to just notice them organically and if you look at the YC top 100 companies at least 70 percent of them have their startup ideas organically rather than by like sitting down and explicitly trying to think of a startup idea and the problem is that when people sit down and try to think of startup ideas they tend to think of bad ones they're especially likely to think of the same set of tar pit ideas that I talked about earlier whereas startup ideas that occur to you organically are more likely to be good ones so if you're not planning on starting a company imminently and you just want to put yourself in a position to have organic startup ideas in the future here are three ways to do that this is like playing the long game to set yourself up for future success um first is just like become an expert on something valuable if you're working at the Forefront of some field you'll see good startup ideas in that field and a great way to do that is to go work at a startup Harge talked about this in his talk last week if you're working at a startup you will become an expert in the thing that that startup does and that is really putting yourself in a position to have great startup ideas and finally if you're a programmer one thing that can work is to just build things that you find interesting even if they're not businesses they're not clearly startup ideas sometimes they like turn into them over time and a really striking

example of this is the story of replica this is exactly how replica started it was just something that amjad

7 recipes for generating startups ideas

Reference

found interesting it wasn't supposed to be a startup originally okay but if you want to generate ideas for startups right now I'm going to walk through seven recipes for doing that I've tried to list these in order of How likely they are to lead to actually good ideas so start with the first ones okay here's the first one and the best one start with what your team is especially good at and think of ideas that take advantage of your expertise the reason that this is so effective is that any idea you come up with this way has automatic founder market fit do you see how this is almost like a hack to generate the set of ideas that has founder market fit here's a great example of like how this worked in practice so a good example is this company resi which is like open door for rental apartments and before starting resi the founders have worked in real estate and debt financing and they were experts in those areas and where they got into YC they spent the first month looking for ideas but the smart thing that they did is they only looked at ideas in that idea space in like the rough idea space at like the intersection of like real estate and fintech and that was a smart move because that is a very fertile idea space for startups like many billion dollar companies have come out of that idea space and the resi founders were experts in that idea space and so because of that their search for a startup idea was pretty quick and painless and pretty quickly they came up with the idea for Rezi which is like an excellent idea and has perfect founder market fit so if you have specific expertise like the resi founders did you should definitely start by looking at ideas in you know the things that you're experts in um it is weird how many startups apply to YC and we look at their applications and the founders like are actually legitimate experts in something but the idea that they're applying with is like something completely different now if you're if you're a young founder if you're in college or something you may not have had a chance to develop it's like the level of domain expertise that the resi founders had so this may not be the right recipe for you so let's talk about some other ones the next recipe is to start with a problem you've personally encountered ideally one that you're in an unusual position to see so vetco is a website for veterinarians to order supplies so you can think about it like amazon.com for vets and the short story of vetcove is that the founders are brothers and their dad is a veterinarian and growing up they would notice that the way he ordered supplies was like super old-fashioned like you'd have to like call up a supplier on the phone and like order stuff through like a 1-800 number or something it was like very obvious that you could build an amazon.com kind of thing that would replace that and I I love the story of vetco because it's such a great example of what a great startup opportunity looks like because thousands of veterinarians must have known that this was a real problem that it was really annoying there wasn't like a basic website where you could just go to order

supplies but the thing is veterinarians don't start Tech startups very often and then on the other hand you had like thousands of programmers in Silicon Valley who were begging their heads against cisps and tarpet ideas totally unaware that over here there was like a really great genuine problem to work on and because of this when the vet co-founders got started they had no competition so this amazing idea just got left on the table for years so if you want to try to actually use recipes one and two here's a specific set of instructions for how to do it this is advice I often give to Founders NYC who are pivoting and who are looking for a new idea here's how it works for each founder on your team go through every job you've ever had plus all your internships plus like other life experiences and think really carefully about each of them what problems did you come across what did you learn that other people don't know What are problems or opportunities that you've been in kind of a special position to see those are the best places to start looking for startup ideas okay the next one is to just think of things you personally wish existed this is like a really classic recipe this is very common advice great example of this is doordash the short story of doordash is that the founders of doordash were undergrads at Stanford and the thing they really wanted was to be able to just order food from local restaurants and have it delivered to their dorm and before doordash you couldn't do that so they started doordash and this is a great recipe but this is the recipe that is most dangerous and potentially leading to tar pit ideas so if you're using this recipe you just gotta stop and think for a second is there a reason why this thing doesn't exist yet okay the next one is to look for things in the world that have changed recently that might have created a new opportunity a great example of this is covet so when the pandemic started it changed daily life for all of us and many Founders realize that this created the opportunity for new companies and some very successful startups came out of it and one of them is this company called gather town which builds like this fun way to hang out with other people online and the founders of gathered town were actually working on a different idea that wasn't going so well and when the pandemic started they pivoted to this because it was obvious that like the change in behavior of the pandemic had created a bunch of new opportunities you can also look for companies that have been successful recently and look for new variants on them a good example of this is a company called Nuvo cargo Nuvo cargo is a good example of explicitly sitting down to try to think about startup ideas and actually finding a good one which is the thing that I told you is hard to do pneumo cargo is basically flexport for Latin America they help U.S companies to import stuff from Mexico and the story of nuva cargo is that Deepak the founder was working on a different idea NYC and he realized that his idea wasn't going to work and he went on like a systematic search for better ideas and he picked Nuvo cargo for for very analytical reasons he picked it because it was a large Market because they were good proxies from other companies flexport and he picked it even though he didn't have deep domain expertise in the import export space because he had some connections that would enable him to get started and he felt like he would just be very good at running this kind of operationally intensive business and that worked really well Niva cargo is doing super well you can also go and talk

to people and just ask them what problems they have this this can work the the downside with this recipe is it actually requires a lot of skill if you want to do this I would recommend first picking a fertile idea space and then going and talking to people within that idea space and I would also recommend talking not just to potential customers but also to potent but also to founders of companies in that idea space to get advice about what ideas are actually worth pursuing and a good example of doing this successfully is a to B and A to B was in the position that a lot of Founders that struggle to find good startup ideas are in which is that the founders were pretty young and they hadn't acquired a lot of specific domain expertise like the resi founders had yet but they really wanted to do a startup and they wanted to do a startup that had like a genuinely good idea the way that they came up with the idea for ADB was very systematic and so I'm going to walk you through how they did it and really break it down for you so A to B makes fuel cards and if you haven't heard of a fuel card it's like a special kind of credit card for truck drivers when the A to B Founders got into YC they pivoted and they spent the whole YC batch looking for a new idea and here's how they did it first they picked an idea space and the idea space that they picked was essentially software for the trucking industry and they picked this idea space despite not being experts at the trucking industry because they felt that it just should be a fertile idea space to go hunting for startup ideas the trucking industry is as like Big Industry hasn't been that disrupted by startups and software yet so they just felt like there were probably some good problems to work on in the trucking industry but the problem is they didn't know that much about the trucking industry so they didn't know what those problems were and so they decided that they would turn themselves into experts in the trucking industry and what they did is they actually physically drove two truck stops which were places where truck drivers are just kind of Milling about and they would just walk up to truck drivers and like start talking to them and ask them questions about what their problems were they also talked to a lot of Founders who had started companies in the trucking space to get ideas for what problems were actually worth working on they would basically talk to like anyone who knew anything about Trucking that was willing to talk to them and as they did that they began to put together like a mental map of the space and where the good ideas were where the bad ideas were and they actually went through a whole bunch of different potential ideas before eventually deciding to work on fuel cards and I love the example of a to B Because A to B is one of the best new ideas to come out of YC in several years A to B is a phenomenal company and the approach that they used to find this idea is something that really anyone could do and most Founders don't do this because it just sounds like too much work so if you're willing to put in the work this is an amazing way to find a startup idea okay and my last recipe is to just like look for big industries that seem broken any Big Industry that seems broken is probably right for disruption and finally I've got kind of a bonus recipe which is to just find a co-founder that already has an idea they're actually like a lot of people just on Startup School co-founder matching right now that already have an idea and are looking for a co-founder so if you don't have a co-founder and you don't have an idea that

could be a great hack to getting both at the same time the last point that I want to leave you with is just to remember that it's often hard to tell if a startup idea is good or not and so while I hope the concepts that I talked about here will help typically the only way to know for sure if your startup idea is good is to Just Launch it and find out so if after all this you've got a startup idea and you're still kind of on the fence about whether it's actually a good idea or not that is my advice for you just launch it and find it

Prepared by: Abdulmajeed Al-Muarik

Note:

This automated transcript serves as a testament to the invaluable content created by Y-cominbtor. Their exceptional expertise and captivating delivery have made this video an absolute gem for knowledge seekers like myself. As a personal project, I embarked on the mission of transcribing this remarkable content. To help individuals effortlessly follow along and absorb the valuable insights shared within.