Should You Start A Startup? | Startup School

Video URL

Introduction

Reference

I'm Hodge tiger one of the group Partners at y combinator today I'm going to talk about whether you should start a startup because YC invests in startups so early I've spent a lot of time with people who aren't yet sure if they should start a company or not I've helped many people including my own friends and family think about this decision at my intended audience for this talk is anyone who doesn't feel ready to start a startup today but thinks they may want to one day in the future I'm going to break down the topic of whether you should start a startup into two parts first we'll talk about which types of people seem best suited to being startup Founders and help you figure out if you might be one of them second we'll talk about how you might best

How to decide whether to be a startup founder.

Reference

out if you're the kind of person who should become a startup founder or not I really wish there were simple test you could take that would give you a clear and correct answer to that question I've now worked with almost a thousand startup Founders as a group partner at YC and I still get surprised by which people take to Startup life like a duck to water and which ones struggle to adapt now you might find this surprising if your image of startups is based on the way famous Founders are often depicted in books or movies these depictions can make it seem that if you're not a ruthless brilliant programmer like Mark Zuckerberg in The Social Network movie or a charismatic product genius like Steve Jobs in one of the many books or movies about him you probably aren't cut out to be a startup founder now I can't deny it that being a brilliant programmer or a charismatic product genius will certainly make it easier to be a successful startup founder but I can say that after working with many successful Founders there are many more different types of people who succeed as startups with different strengths than just those stereotypes as an investor my job is to pick which people will make great startup Founders and yet even after 15 years of starting and investing in startups I still get surprised by who turns out to be a great startup founder that means it's going to be hard for you to know for sure if you're suited to being one you might think you could just look at how well someone has done in school or at work and assume success there will lead to success of startups that's definitely what I thought when I first started working at YC in 2010 and began reading YC funding applications for the first time after I started working with more startups though I realized that these signals mattered much less than I'd expected they would when you're working on a startup you have to put in Blood Sweat and Tears to convince even a single user to care about trying your product let alone convincing the first 10 or 100 you have to push through a lot of rejection to get there and because this is your startup all of that rejection feels very personal in a way it doesn't when you're working at a Fan Company building a product

Resilience is the most important quality

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your early users and that's the quality I think is most important for startup Founders to have resilient people are suited to startups and should definitely become Founders but how do you know if you have enough resilience to be a startup founder when I first started working at yce I thought I could use confidence as a proxy for resilience I'd assume that if someone projected confidence like speaking with conviction being high energy during our funding interviews they were likely to be a resilient founder the more Founders I worked with though the more I realized this was also wrong it turned out that someone could appear very confident initially but not be resilient when their startup hit roadblocks conversely some of the quietest and least confident seeming Founders at first turned out to be the most resilient Founders I'd go on to work with many eventually

Founder of Benchling (S12)

Reference

benjling in 2012. benjling is now worth over six billion dollars and Sagi has grown into a formidable founder and CEO but I remember when we first interviewed him and his co-founder Corey they were both softly spoken engineers and we were all concerned they wouldn't be suited to working on benchling because benchling's idea was to sell software to biotech companies and pharmaceutical companies to make money and we weren't sure that they would be good at that kind of Enterprise sales this concern was shared by investors at demoday who worried that they wouldn't be able to get those biotech or pharmaceutical companies to pay for the benchling software and benjling struggled to raise very much seed funding at demoday sales did turn out to be a real struggle for benchlink in fact over a year after they'd graduated from YC benchling was still not making any Revenue though they did have some enthusiastic grad students as free users and the product continued getting better it took them almost another year that's now two years after ycee to start doing sales and making any Revenue now benchling is on calls to become a public company someday and has many of the world's top biotech and pharmaceutical companies as customers looking back I always had confidence that Sagi was a good engineer but I could not have predicted back when we funded him in 2012 that he would have the resilience to overcome that amount of rejection and transform himself into the leader of a company that took many years to become great

Startup resilience

Reference

who seemed equally talented at first when we first funded their companies but turned out not to have the same amount of resilience as these Founders did I've thought a lot about how to tell the difference between people who have this kind of startup resilience and those who don't I've wondered if maybe having the right motivations or reasons to start a company mean you're more likely to have this special resilience over time though I've decided that this also doesn't matter as much as I had thought I think there are many perfectly legitimate motivations to start a company for example it's become popular to say that you shouldn't start a company just to make money that's considered a somewhat flimsy motivation but I actually think it's fine to start a startup to become rich startups are one of the few ways to make life-changing amounts of money in a relatively short period of time if the desire to make money gets you started then great go for it I also think that simply being curious about what it's like to found a startup is a fine initial motivation to start one actually doing a startup is the only way to know for sure if you'll enjoy it the reason I have conviction that your initial motivations don't matter so much is that I've seen motivation to change over time I've seen Founders who started out a company with a plan to sell it within a year change their mind as they kept working the company and they're still working on that same startup a decade later and it's now a public company this means that your initial motivations to start a startup aren't as important as what those motivations might change into over time in order to keep working on a startup and keep going through those dark periods that every startup experience is you need enduring motivations and I think the best ones are to be genuinely interested in the problem you're working on and

As a curious founder ask "What do I have to lose"?

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introspecting too much on if you'll make a good startup founder I'll offer some practical advice if you are curious about what it'd be like to start a company start by asking yourself what do I have to lose now I mean this question not as a rhetorical one but as a very practical one figure out what the worst case scenario looks like if you started a startup and decide if you can live with that it's probably going to take at least a year for you to have enough data to tell if the startup you're working on is promising enough to keep working on in the worst case you'll shut down the company without having earned much or any salary for that year can you live without worst case the calculus here is different for everyone if you're about to graduate college taking a year after graduating to work on a startup is not a big deal those job offers will still be waiting for you in a year but if you've been a Fang employee for the past nine years and you're in line for a big promotion this year then maybe you stand to lose a lot by spending the next year working on a startup instead asking yourself if you can handle the worst case is the best way to know if you should start a startup be honest with yourself if you can't actually handle the worst case then your own constant anxiety will probably self-sabotage your startup efforts when you're thinking about the worst case scenario of working on a startup you should Factor something else into the equation you will learn a lot from starting a company I don't think enough people factor in how valuable this learning is when they're doing their worst case scenario analysis as a startup founder you're responsible for making everything happen and that means you get to do lots of different types of work you'll have to do some amount of sales product and customer support all at once this can be very clarifying in helping you figure out what type of work you enjoy and where you might want to focus your career even if the startup doesn't work out some people start a company that doesn't work and then they jump straight back into starting another one because they want to learn from their mistakes others decide they actually really enjoy specializing in doing one thing really well and they join a company where they can do just that

Startup experience can improve your career opportunities

Reference

succeed my second startup triple bite use software to help companies identify and hire great people I work with hundreds of employers as they search for the best talent and I found that many of them were explicitly looking to hire people who had previous startup experience they believe they showed evidence of being a self-starter and being able to take initiative and Lead projects some of the most successful YC companies have actually built their hiring processes around this knowledge Rippling a 10 billion dollar company founded by Parker Conrad also a YC company hires former Founders and puts them in charge of entire product divisions usually we love hiring former Founders to run specific product lines and

and build them and and really run them as general managers we've been you know really successful at recruiting I think we have Lao now probably around 50 former Founders that work at rip Lane at YC we often see startup Founders leave this thought up if it doesn't work out and go on to join a more successful YC company this is Nick Grandy YC funded his first startup wonderbar in 2008. that startup shut down but he went on to join another YC company you may have heard of Airbnb as his first employee that of course worked out great and after many years at Airbnb he left to start another YC company out school which is now valued at over 3 billion I share these stories to show how career progressions are not always perfectly linear introducing some Serendipity and meeting smart ambitious people can completely transform your career and being a startup founder is a great way to do exactly

Getting ready to start a startup in the future

Reference

you're not ready to do one right now how can you best prepare yourself to start one in the future to actually start a company you'll want two things an idea and a co-founder now sometimes an idea and co-founder both come to you quickly and you're Off to the Races there's lots of great startup content out there about how to start a company once you're ready but let's talk about what to do if it will take you some time to get to that point I'd start by encouraging you to not think of finding ideas and co-founders as two separate tasks it's hard to think up good ideas yourself also your ideas will start out being vague and fuzzy more like a hunch or an Impulse than a clearly formed idea and you'll go through seven iterations of fleshing it out into something more tangible and concrete having someone to talk through that initial idea or impulse with and debate and discuss is important and the best person to do that with is your co-founder I find my best ideas come to me during conversations with smart people so I'd start by thinking about who do you know that you enjoy talking about ideas with in college these are often the people you'll go to when you're stuck on a hard problem or they are the people you most enjoy working on group assignments with at work these are the colleagues who you find make you the most productive and help you do your best work I'd see these people out and start having conversations with them about ideas or technologies that you find interesting talk about products you use every day that you admire or are frustrated by talk about Technologies you think are underrated today and why flesh your thoughts out and debate them spend the time between these conversations doing your own reading and research to learn more about the topics you find interesting if you're a curious person this will seem natural to you anyway all of this primes your mind to more easily notice and think of potential startup ideas and it helps you get to know your friends or colleagues better as potential co-founders if you're struggling to think of people you enjoy talking about ideas with

Best environment is working at a startup

Reference

start a company one day it's best to choose an environment where you will be around many people who might someday be your co-founder I think the best environment for this is working at a startup you both get to see how a startup works from the inside and your colleagues will be less risk-averse than the average Fang employee so if you're in college I'd recommend finding a startup to work at after graduation or if you had a fan company now think about leaving to join a startup as an intermediate step to starting your own someday once you're around smart people who you enjoy talking about ideas with I'd recommend you start experimenting with turning these ideas into side projects at some point during these conversations you'll eventually say something like huh like it'd be cool if someone built X and that's the moment to stop and think about how you could be the one to build X is there a simple first version you could build over a weekend or can you find other people who might be users and Pitch them on the idea to see how they react keep pulling on this thread until you've come up with a plan to turn this idea into something real however small it is right now you're not trying to launch the next unicorn you're just getting used to the experience of turning ideas into reality and experiencing the thrill of launching something turn your idea into something real you'll need the skills to actually build them if you're not a programmer then either you need to learn how to program or find a co-founder who is a programmer my advice speaking from experience is someone who started his first startup without being able to code you start learning to code you only need to learn enough to build a version one

When to take the leap and start a company?

Reference

how do you know when it's time to take the leap and quit your job to start a company while it'd be great if one of your side projects started getting explosive traction and made the decision easy for you you can't rely on that happening if you're serious about starting a company someday even if you launch your side projects and get some early users the feedback you get will be mixed it's not uncommon for the early use of any product to span the spectrum of being delighted appalled and indifferent towards a product to judge how promising your side project is as a startup idea I'd use some advice from my y combinator partner Paul bukhai he says that it is better to make a product that a few people really love than one a lot of people are indifferent Awards if your side project elicits a deep reaction from someone the kind where they can legitimately say that doing something very differently as a result of your product existing then you may be onto something a single passionate user of a crude prototype that was hacked together in a weekend means so much more than a million sign-ups on a waitlist for something that doesn't exist yet my main advice to you would be to think less about how well your side projects are going and think more about how much you enjoying the process of thinking up ideas and turning them into something real are you learning new things and finding yourself energized contrast this feeling with your day job if you find your job is draining but you have energy to work on your side projects on evenings and weekends that's a sign it may be time to quit and work on your own ideas pay particular attention to how much you enjoy working with your side project collaborators if you enjoy working with them and you both want to be startup Founders recognize how rare that is having a great co-founder who wants

Advice

Reference

to do a startup is a fantastic reason to quit and start one to finish my advice is one don't worry too much about your initial motivations or reasons to start a company those can change over time simply being curious about the experience of starting a startup is enough to get going think about the worst case scenario if you did start a company and be sure you can live with that if you don't yet have an idea or co-founder start looking around for smart people to talk about ideas with and launch some side projects with actually launch those side projects however small to get the experience of turning ideas into reality and if you find someone you really enjoy working with side projects with and you both want to start a company make the jump I really hope you do and I hope we get to work together at YC Community someday thanks so much

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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.

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 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 tarpet 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 tarpet 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 tarpet 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 tarpet 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 loader 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.

Keys To Successful Co-Founder Relationships | Startup School

Video URL

Introduction

Reference

good morning everyone my name is Kat I'm a software engineer here at YC and I lead the startup school team today I have visiting group partner Divya with me and we're going to talk about everything relating to co-founders so what is a co-founder where do you find a co-founder how do you evaluate co-founder and once you have one how to work together thanks so much for having me Kat I'm really really excited to talk about this today actually finding the right co-founder is arguably the most important part of starting a company I've seen so many startups fail or succeed due to co-founder issues and so

Meaning of a co-founder

Reference

clarify something what do we mean by the word co-founder yeah so quite literally a co-founder is someone who starts your startup with you um so when you apply to YC we consider someone to be your co-founder if they have at least 10 Equity but in general a co-founder is someone who is there from the beginning or close to the beginning who is building your company with so if I'm hardworking and smart can I just start my startup alone so yes cat you were very hard working and smart and I don't doubt you um the short answer is yes you absolutely can but it's it's really hard like really really hard you know a startup is a very difficult Journey for anyone and doing it alone makes it more than twice as hard and so you know we really recommend having a co-founder for the following reasons so number one is productivity so moving fast is critical in a startup and when you have two people three people you can literally move two or three times as fast you can just get so much more stuff done additionally your brainstorming can be higher quality right you can help each other see around corners and bounce ideas off each other exactly kind of maybe not get into a rut with a bad idea and have someone checking um accountability is you know a little bit more effective when there's someone else there you know you do your daily stand up and say this is what I'm going to get done today and then there's someone there the next morning to ask you whether or not you did it and then I think moral support is another huge and some times Overlook component so a startup has a lot of ups and downs there's moments of optimism there's moments of Despair and having someone that can both empathize with you but also balance you out in some of those scenarios can be just so helpful to keep moving if you're not convinced by those theoretical reasons it turns out that the empirical evidence also supports having a co-founder most successful companies have been started by more than one founder even companies that are famous for only one of its Founders actually had at least two Microsoft we all know Bill Gates but Paul Allen was around for 10 years Apple so Steve Jobs is the face of Apple um but Steve Wozniak was the one who designed and built the Apple computer and little known fact they actually had a third co-founder Ronald Wayne he left pretty early but there were three of them in the beginning yeah and Facebook or I guess meta now if you've seen The Social Network you'll know that Mark Zuckerberg had not one not two not three but four co-founders so the list obviously goes on and on but we also have some quantitative data to share so while YC does fund solo Founders yes we do we do fun solo founders of YC's top 100 companies only four were founded by a solo founder are there really only four yeah yep and in those cases there is a clear pattern among the solar Founders as well they are always able to make progress on their own so they built their own MEP they got their own users Etc yeah so I actually know some of these guys they're exceptional um and it's worth repeating then that while having a co-founder dramatically increases your chances of success YC actually does fund solo Founders we believe that ultimately you are the best

Finding a co-founder

Reference

but if you are convinced that you need a co-founder let's talk about where to find one Divya any ideas yeah so the obvious place to start is people that you know so friends classmates colleagues if you're in school this is an awesome time to find a co-founder right you're surrounded by classmates friends people who'd be fun to work with UH responsibilities yeah fewer responsibilities for sure um if you're working at a company look to your co-workers that are smart capable impressive people that you work well with and beyond that you know look to other people in your network friends friends of friends and if you see someone who you think might be a good match work on a project with them right like this can be a lower commitment way to test out your working relationship your skill sets than an actual startup and you can kind of get a sense for what it would be like to work with them as an added bonus the kind of person who wants to work with you on an evening or weekend project is like usually a really good co-founder material yeah that makes sense yeah these are all really great

Co-founder matching platform

Reference

highly recommend checking out YC's co-founder matching platform here's how it works when you sign up you tell us about yourself and what you're looking for so we ask yourself like are you technical do you have an idea you're working on or are you open to new ideas how many hours a week are you going to commit what industries are you interested in can you be responsible for you know engineering sales product Etc so once you've done that our team will manually read and approve your profile just to make sure you know you're not a robot you're not a Dev shop out here and once you're approved for the platform you can then look at profiles that pass your filters it if you see someone interesting you can send them a message and if they're also interested in you they'll match with you we recently also built a new feature that we called speed dating I love that it does come from the concept of speed dating you set aside an hour to be online you match with other Founders for five minutes of one-on-one video chat at a time and it's just a really great way to quickly meet tons of people interested in starting startups which is already a pretty big filter that sounds really helpful kind of especially as part of YC's greater ecosystem cat how many users do you have am I in office hours well I do know the answer to this question so we launched co-founder matching early last year we now have 40 000 profiles on the platform and we actually just crossed a hundred thousand matches last week 100 000 matches is pretty impressive do you have any success stories you can share I do and I'm really excited about it so while it's a little bit early to say if these teams will last you know seven to ten years we have seen some really promising early signs over a dozen teams have met on the platform decided to be co-founders applied to YC together and actually got next that's awesome I have an example this is sequin so verinda was a PM at Visa where she launched credit cards like the Chase Sapphire Reserve she left her job and spent about a year working as a solo founder on a product to help women build credit she was looking for a technical co-founder who was mission-driven and had fintech experience Mark had 10 years of engineering experience at PayPal he spent six years as CTO of family oriented startups and he wrote on his profile that he cared deeply about gender Equity such a good match so they were a perfect match on paper and it turns out they were perfect match in real life they met on Zoom they just vibed instantly so they arranged to meet in person they met every day for the next week in person and so it's really easy for them to decide to work together these guys went through YC and raised 5.7 million dollars that sounds like a dream actually it sounds like kind of a like love at first sight co-founded scenario um do all co-founder matches take so quickly or do you have examples of things that maybe took a little bit more time to to take yeah yeah so you know every story is a little different so this is kiwi biosciences they're another team from the summer 2021 batch these Founders were actually some of the earliest users of co-founder matching which is really cool like first couple hundred users Angie started a company to solve her own pains with irritable bowel syndrome David had experience in this industry he actually started a startup in the same problem space before so she renewed right away that he was the one but when they first met David was actually working on a trial project with a different potential co-founder he met through the platform plus he didn't like her idea he thought her idea would never work and so he ended up just being an advisor instead and they met once a week for a while but eventually even though he wasn't sold right away on the idea he was really impressed by Angie as a Founder he believed in her so they eventually took a very structured approach they filled out this 50 question long co-founder questionnaire and spent a month working on a trial together and by the end of that month it was easy so they also went through YC and they raised like 1.5 million dollars as an aside that's interesting that he didn't love the idea but thought Angie was awesome this is something we see in

Tips on getting the most of the platform

Reference

um so while we're on the top of co-founder matching success um can you share any tips on getting the most out of the platform for anyone out there that's going to use it I imagine that some of this advice actually applies more broadly to a co-founder search whether or not it's on the platform but like what have you seen yeah I would love to talk about this so I have two main tips number one is just really fill out your profile it sounds basic but the difference between 10 and 100 effort is very apparent especially when you're comparing these profiles side by side so what I mean by that is you know put up a picture or a video photos are optional on the platform but it helps make you look like a real person you should brag a little so some people especially women or people from other cultural backgrounds value humility a lot but this is not the time to be humble potential co-founders don't know you they're only seeing a snapshot of you so you really want to sell yourself here yeah you want to stand out from the crowd right like this is the time to just like put your achievements front and center yeah and I think this is especially important if you are a non-technical Founder with an idea trying to recruit a technical co-founder this is a really common case on the platform but the thing is that technical Founders get lots and lots of invites and so you have to differentiate Yourself by bragging about your accomplishments and maybe show them the progress you've made on your own there's a huge difference between someone saying hey I have a great idea I'm just waiting for someone to help me build it versus like hey I'm working on an idea I have an MVP I have some users and I want a partner to come help me build it up yeah remember people are joining you as a person not your idea right exactly and so like show what you can do as a person yeah the second thing I would say is me as soon as you can in real life if possible but Zoom is also great according to stats from our platform 70 of all Meats happen within two weeks of

Evaluate potential co-founder

Reference

all right now that we have some avenues for finding potential co-founders let's talk about how you know if they're a good fit for you Divya you've started multiple startups what are some things you look for when evaluating a potential co-founder yeah yeah so this might sound extreme but a co-founder relationship is like a marriage and it's really important to get this right and in many cases you might spend more time with your co-founder than you do with your actual spouse especially if things are going well especially if things are going well exactly so I want to talk about a few things to align on early and we're going to talk about some of these again when we talk about working with your co-founder but early on here are some conversations to have so one is goals and values so what motivates you why do you want to do a startup um how stress so how do each of you handle stress and how will you help each other handle stress are you able to provide what the other person needs because there are going to be stressful times um communication so can the two of you or three of you have an honest and Frank conversation with each other and still move forward productively um finances are a very important one to talk about early how long can each of you go without a salary or with Benefits what salary requirements do you have is there kind of a timeline in mind which you know you need to have more of a market rate salary or raise money make sure there's some alignment on this or at least a conversation um and lastly commitment how many hours a week can you work you know like what do evenings and weekends look like are you guys on the same page around this just there's no right or wrong answer but these conversations need to be had early on and then lastly um Kat touched on this earlier but meet in person if you can it's a lot easier to communicate and get a sense of compatibility and communicate some of the Nuance on the above topics if you're actually sitting face to face with someone I'd like to also add on a Counterpoint there are some things people tend to think are important but maybe aren't actually so important so specifically what I'm talking about is complementary skills I got an email the other day from a Founder telling me they needed to find someone to help fundraise and bring in a network of potential investors and experienced board members no no you don't you can learn that actually most skills are very learnable so that includes fundraising marketing even sales it's much more important that you're compatible with your co-founder in the other ways Divia mentioned above yeah so there's one exception to this rule actually and so absolutely right

Technical co-founder vs. Dev shops

Reference

if you're non-technical you should really think seriously about getting a technical co-founder and one of the most common questions we get from non-technical co-founders is I can't find a technical co-founder what should I do can't I just hire a Dev shop to help me build out my product the short answer is please don't do that like if you really can't find a technical co-founder you should learn how to code Dev shops pose a ton of challenges especially for really early stage companies you know not only are they costly from day one but it can be extremely challenging to iterate quickly as you're learning from your users you know Dev shops are designed to ship clear deliverables and as an early stage startup like you don't have a clear deliverable like you're kind of like feeling around in the dark and building for your users and the requirements are changing on the Fly they also don't care about your user they're just like I'm gonna do this thing you're gonna pay me exactly and um you know iteration can just become really clunky ineffective and again very expensive

Trial projects

Reference

can find one the last thing I want to bring up in this section about evaluating co-founders is trial projects the only way to tell if you work well together with someone is to try working together so Atco funer matching we recommend that before jumping into a full-blown co-founder relationship you work on a trial project together first essentially you agree beforehand on a timeline usually two to four weeks a tangible project goal and scope and also who owns the work at the end it's a very structured way to try working together with some mutual expectations I do want to say though remember at the end of the day just like with any other risks you take in life you will eventually need to take a leap of faith and that's especially true when you're starting a startup which is risky in all sorts of ways so find someone you're willing to take a leap of faith with yeah absolutely and you know we talk a little bit about like de-risking things and like a lot of these questions we talked about earlier are ways to de-risk that co-founder relationship but again like do risk it until the point you can and then and then you just gotta go so let's say you found someone you want to work

Spliting equity

Reference

about so now I want to move on to an important topic which is how to split Equity with your co-founders so the general YC advice is that by default you should just split Equity equally so there's lots of options here but you can kind of start from that Baseline and the reason for this is because you know you would like to be making equal contributions going forward and you should both be equally motivated to work hard for a very long time you should value your co-founder and if you don't like why are they your co-founder but the Divya I came up with the idea okay ideas don't matter um ideas are cheap right and if things go well first of all the idea is very likely to change over time is you listen to your users but if things go well you're going to be working together on this for the next seven to ten years or more or more exactly so you know the point in time that you came up with the idea is just such a small part of my idea right that makes sense to me so here are some other really common bad reasons we hear for splitting co-founder Equity unequally so of course I came up with the idea I started working on this idea before my co-founder did my co-founder took a salary and I didn't I'm older and I'm more experienced than my co-founder we need someone to tie break when we have arguments so there is a good point here about needing a tiebreaker but we'll talk about that in a second it doesn't need to be done through Equity exactly I launched my MVP without my co-founder my co-founder agreed to their smaller share another one is you know I raise so many thousand dollars before my co-founder joined so even if you think you got a good deal now this could potentially result in resentment later down the line yeah you shouldn't be trying to get a good deal from your co-founder like it kind of starts the relationship off on a bad foot yeah so the bottom line here is all of the work is still ahead of you you both need to be happy and motivated for a long long time startup outcomes are pretty bimodal so don't jeopardize your

How to work together

Reference

how to get set up with a founding team it is time to get to work now we're going to share some stories and best practices on how to work with your co-founders when it comes to teamwork one thing we often hear is that communication is extremely important Divya do you have any advice for our Founders on how to keep clear and open lines of communication yeah this is a great question so communication is so important and it's as important as it is in any close relationship in your life so we talked about this earlier but you know a co-founder relationship is it's not a stretch to think of it as a marriage yeah and I imagine that setting up these communication channels starts very early in the relationship like almost before you start working together you need to align on certain expectations right I've seen co-founders enter into relationships with very different pictures of what it looks like to her together from anything from you know how many hours you worked or how much salary you're going to draw to how many meetings a week you plan to have you're so right cat talking about expectations is one of the first ways to really test out your communication with your co-founder and make sure that you can actually have hard or uncomfortable conversations while still being productive so at my first startup we initially had four Founders um all friends still friends still friends still still very good friends um and there were a couple of topics that we should have discussed early on that just became bigger problems later than they needed to be um so first we found out pretty early on about six months in that one of our co-founders he kind of had a timeline in his mind for how long he would wait for the product to go viral um it was a totally reasonable expectation but it's not something we'd really discuss so about six months into our startup Journey he was getting very frustrated with the lack of traction and um it kind of caught us all by surprise since we hadn't talked about it and you know it was something that just kind of built up over over time and he left the company pretty abruptly another topic that we should have discussed earlier was about finances and how long we could each afford to go with little to no salary so there was a little bit of a mismatch with the founders on this of course everyone's financial situation is different this put a little bit of unexpected pressure on the company at some at one point it kind of came out of nowhere it felt like it came out of nowhere we ended up feeling like we needed to raise we started considering some like low ball Aqua higher offers um and while we didn't end up taking any of these deals I think if we'd known sooner we probably could have made some decisions earlier on to avoid these distractions and so just these conversations would have been really helpful to have had up front gotcha yeah these scenarios seem pretty common

Topics to discuss before committing

Reference

have a list of topics you recommend that Founders discuss with their co-founders before committing yeah so this list is by no means exhaustive but here are some good ones to start the conversation so one is um how much do you want to work on your startup versus not we talked about this earlier but um you know evenings weekends vacations like kind of what are those expectations what do you guys both have in your minds it can be pretty different they can be very different sometimes people just assume and don't have the conversation just like don't assume you know put it out there um what is being available and like what do response times look like like you know if I slack you and you write back to me six hours later like am I gonna be frustrated or am I gonna think you're really responsive like you know people have different senses of this how long can each of us go without salary or benefits again this is a very important one to talk about and what do each of you need to see at different Milestones to keep working on it and to stay motivated does anyone have a it needs to be working by X date um and if so like what does working look like yeah this is such great advice I can definitely see how misalignments on these expectations can start small but

Building trust

Reference

expectations we hear that building trust is another key element of a co-founder relationship I've personally seen this at the root of lots of relationship issues not just for co-founders but for friendships family relationships Etc we see co-founder breakups all the time at YC and a lot of them stem from a lack of trust that grows out of control Divya how has trust played a role in your co-founder relationship yeah so trust is a really big one one of the things I haven't mentioned until now is that for both my startups one of my co-founders is my husband still still my husband you're gonna ask um and for my second company he was my only co-founder it was just the two of us and one of the reasons we were able to make decisions so quickly and draw such clear lines of ownership was that we already had so much trust built up from being married but also from having run a company together earlier um you know of course not everyone comes in with this much underlying trust but having that trust made the co-founder relationship very very functional I think previously existing relationships with your co-founders could go both ways right of course personal relationships don't always translate into functional co-founder relationships yeah that's 100 True a previously existing personal relationship um could totally go both ways um and let me give you an example of one that did not go so well so um last batch last YC batch we had a company apply um we we thought the founder was great and we said why don't you come back with a co-founder and so um he went and he found a friend as someone who he'd been very good friends with for a long time they hadn't worked together he convinced him to join the companies they came back they started the batch um the CEO had been running the company for about six months and to him it really felt like his company oh no yeah yeah so he brought in this friend and from day one he just kind of micromanaged him and didn't give him enough space to succeed or fail at the projects He was responsible for and this is an important one right he would kind of jump in before the project had time to work because at a startup like things take time right and everyone needs a little bit of space and they need that trust um and so he would jump in and he would just kind of berate his co-founder when things were starting to go wrong and when you trust someone like you give them this room to fail right and the psychological safety to make mistakes in this case the co-founder relationship ended with the two so you know we got a slack message one morning and they were like the two of us we were in a bar midnight last night with a bunch of our friends the CEO was like berating his co-founder and then you know the co-founder resigned abruptly the next morning so it's just not a good situation that sounds really rough yeah I would not want to be in a situation like that we do have a couple tips to help with building trust so number one is is trust people by default trust them until they lose your trust not vice versa a lot of good Founders tell us they do this because when you operate the other way around like in the example Olivia just gave people end up feeling micromanaged they feel not trusted and all this negativity will continue to build up if you say you're gonna do something do it if you're not gonna get it done that's fine like startups run super fast you will often have more things than you can finish on your plate but if you're not going to do it you should communicate early often and honestly create space for mistakes you are going to make mistakes all the time both you and your co-founder so don't say things like I told you so it's important to learn from mistakes together rather than assigning blame when something goes wrong and lastly the more time you can spend physically together the better this lowers the friction to asking questions talking about the little things and that can expedite making progress on both your startup and your relationship communicating in person can also help you learn or get a better understanding for the way your co-founders and that can help you build trust as well thanks Kat those are great and um you know they can kind of build a really

How to setup for quick decision making

Reference

good foundation for building a trusting relationship um so in addition to that underlying trust that you're going to be continually working at um there might need to be some structural roles and responsibilities that are defined to keep decision making really fast so on my first company we made the mistake of trying to keep everything equal um and there are many of you there are four of us yeah um so you know we talked earlier about how splitting Equity equally is a good idea and like totally agree with that the equity was not the problem the first kind of yellow flag that came up was that we decided to not have any titles like we all called ourselves co-founder um and so in and of itself that wasn't really a problem but there's kind of two issues with this one is as it correlated that we tried to make all of our decisions by consensus consensus meaning you all had to agree on the decision to move forward yeah for like any decision um so I don't think I need to go into it with this group on my why that's a bad idea but at the time it felt really equal and it felt Equitable but also the the fact that we had no type no titles was a little bit of a yellow flag because it was an early indicator that the team couldn't have hard conversations and we couldn't make decisions when there was disagreement right and so it was like the consensus and the lack of titles were like both kind of symptoms of the same thing you know having to make decisions by consensus was ultimately disastrous like we would just spin we would get stuck in gridlock um so let's talk about some ways to protect against this so you all don't repeat my mistake yeah so as Divya mentioned having clear titles or at least naming one person the CEO can certainly help none of this co-ceo stuff it helps break ties and disagreement and it's also just really good practice for having hard conversations where two people may not agree not being able to pick a CEO could be a sign that you're not able to make hard decisions together in addition to titles it's important to establish a few other things that can help with decision making so clear areas of ownership within the company who is the final decision maker for different types of decisions this could be a different person in different functions but it's important to know who it is what happens if the other person degrees disagrees slightly versus strongly maybe the way you deal with it is different in those cases and finally it can be helpful to set up a structure for accountability so once you've made your decision at some point you should check back in to see how that decision played out and whether anything needs to change in the process moving forward clear areas of ownership are very very important in a startup and a business and in addition in order to make that work it's also very important to understand each other's personality and communication Styles and so you know here are some tips on that so one is keep keep an eye on your on each other's mental health right like likely neither of you is a mental health professional or anything like that but you can kind of see some early indicators is your co-founder burning out are they taking care of themselves are they starting to kind of become more reactive or more emotional like these are some things to look out for and catch early related know how each of you reacts when you're under stress or or when you're having a tough conversation cat let me ask you a question when you're in a stressful tough conversation do you tend to attack or retreat I get very aggressive when I feel upset so I would say attack yeah same um I am I'm in the same boat and um this is something that I assumed was the case for everyone but it's not right like people have very different personality types I've been in a few um close professional relationships or co-founder relationships if I'm very frustrated I like you I get very spun up like I get very communicative communicative I crave engagement you want to solve the problem right now exactly like I want to get in like right now right now right it might not always be a good idea right like we might be emotional but I'm still like I wanna I wanna get through this and I've worked with people that in those situations like they just kind of want to withdraw a little bit like they want to cool down maybe they don't want to engage with me because I'm being crazy um right but like people sometimes just want like a little bit of time to calm down and I think sometimes when there's a mismatch in these Styles it can create a little bit of a vicious cycle it can self-perpetuate the more you want to talk to them the more they are not trying to talk to you right now right and I might perceive that they don't care about the problem um so it's just important to know how people react in stress a few other things so does your co-founder tend to speak up when they see a small problem or do they bottle it up until there's a huge frustration it's important to know how big of a deal things are when someone brings things up what environments are most comfortable for your co-founder to voice concerns is it you know like a walk and talk is it maybe over a meal is it in a scheduled structured one-on-one where there's time set aside for concerns here's one that might be a little bit counter-intuitive but are you both comfortable praising each other and celebrating each other's wins this can actually be very uncomfortable for people sometimes can you you know give each other positive feedback and can you graciously accept positive feedback like this can really build a strong co-founder relationship and lastly will you feel attacked if your co-founder makes a suggestion about your work because as we talked about everyone's going to make a lot of mistakes right and everyone needs to be able to talk about these in a way that isn't emotionally loaded so figure out what that looks like for you um and can you do it without taking it personally I definitely have an aggressive personal type when I'm stressed so this is all really really helpful stuff to think about let's wrap up by talking about a few habits and structures you can put in place to try to build and Foster a productive co-founder relationship number one have regularly scheduled one-on-ones even if you talk to each other all the time it can also be helpful to keep a list of ongoing topics that you add to as you think of things and if there's something non-urgent just you know add it to the list instead of interrupting your co-founder every time there's something small in those 101s definitely Reserve time for bi-directional feedback both positive and constructive make this something that's part of the flow make it routine not something that feels like a big deal that you dread all the time actually I have a great example the founders from kiwi biosciences which I talked about earlier do something that I think is pretty cool when one person gives constructive feedback the other person doesn't interrupt or argue it's a really neat way to let someone vent without feeling like they have to defend why they feel upset and I think it also helps with feeling like it's okay to talk about even the smallest things and that leads me to the next point which is don't delay hard conversations and don't wait until things are a big problem before you mention them the thing with problems is that they're easier to solve when they're small engage a coach or counselor for tricky interpersonal situations don't feel bad about this this is really helpful I highly recommend it these coaches is literally their job to help people through these problems they've seen it all and they can help you and again it doesn't mean you have a big problem because you're engaging a coach right like you can you can tackle the problem while it's small and we've talked about this next one a couple times already but we do think it's really important avoid personal statements and normalize failure we've said this multiple times failure is going to happen all the time and you need to create space for that so don't say things like I told you so don't say Hey you always do this you always XYZ these are personal attacks and you don't really want that in your co-founder relationship argue and get comfortable arguing but you should know who ultimately is the decision maker disagree and commit at some point your team will have to make a decision unless you're you know trying to to do the consensus thing don't do that but once you've made a decision commit and move on just remember that at the end of the day no matter what happens or what details you disagree on you have the same ultimate goal right you both want the startup to succeed you're on the same team yeah and you're doing something very very hard and against the odds so you want to be marching in the same direction right so that wraps up our talk hopefully you've gained either you know the desire to get a co-founder more clarity on who your co-founder should be or maybe more insight on how to work together with your co-founder foreign

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.

How To Talk To Users | Startup School

Video URL

Introduction

Reference

foreign my name is Gustav and I work here at y combinator as a group partner I've been here since 2017. before YC I was a practically to Airbnb and actually a YC founder back in 2007. today I'm going to

Outline

Reference

to cover today why the best Founders talk to the users throughout the lifetime of the company two how to find your users and how to talk to them three what questions to ask them and what not

Best founders learn from their users

Reference

the world have the idea on how new startups to form completely wrong they think ideas of new products is something the financials come up with on a lazy Sunday or a late night coding session you probably know it doesn't work this way this scene as you can see here here is a scene from The Social Network movie it's a great movie but they got a lot of things wrong on how Facebook actually got started this is Brian chesky Brian is the co-founder and CEO of Airbnb on the left side of the photo is Amal Amal was the very first guest on

Airbnb they actually spent a weekend together in San Francisco when they'd be kind of watched you notice the difference between this photo and the previous photo well this photo actually is a real photo it includes a two-way conversation with a real customer great Founders talk to Future customers before they even have a product in fact the very best Founders in the world learn directly from their users throughout the life of their company but that's again if you have correctly identified who your users are you should learn from them throughout the lifetime of your company why you might ask users and customers will keep you honest they are the only stakeholders actually paying you anything if anyone will tell you the truth it will be them so my talk today is about how to do this well so let's talk about another m b story in 2010 um and I remember this uh myself Brian chesky the CEO of Airbnb he'll decide to launch an experiment he was going to give up his apartment and live in 50 different airbnbs over the next couple of months you might ask yourself why would anyone do that so much hassle most people read the articles about this experiment because he did announce it they missed a point um I personally remember this being kind of crazy by doing this Brian will literally get a chance to talk to every one of these 50 hosts each single day on this trip and one incredible source of honest feedback on your product without the Airbnb hosts MB would not exist exist today what Brian Joe and Nate did so early is deeply understand the motivations um and the feedback from their hosts still today Brian and Joe gets calls from hosts on their personal cell phone numbers I remember them telling me that that on their first day of adworks at Airbnb why do they do that well it's the number that they put on the website and share with all of their hosts early on they weren't hiding behind Anonymous email they wanted to hear from the customers at the time this seemed almost radical most Founders would spend their time in front of the computers trying to find scalable growth channels like Google ads unfortunately most Founders still don't build personal connections with their users today behind behind info at emails or don't do not reply emails you don't believe me you should just do a search

Who should I talk to?

Reference

to their customers so let's start by trying to figure out who I should talk to it's always easy to interview people that you know or people who are on your network they're simply the most likely to respond but perhaps can be less honest in their answers to not offend you don't be afraid of reaching out to them and don't be afraid of rejection the second group here is co-workers or former co-workers they can be a really great source they might know the topic really well and if you're building software for startups you can easily and easily navigate yourself to someone who's a potential User it's also very common that the early users you speak to are outside of your personal circuits or your co-workers circles when asking YC Founders how they found their early users some of the most common answers were LinkedIn red forms slack or Discord communities and sometimes in-person events so to illustrate this process um a little better I'm going to start a new mock startup this is not a real company I'm just making it up but I'm going to go through the process as I would have if this was a real company and first I want to understand if the problem is real my hypothesis that I have here or kind of like the idea space that we sometimes call as NYC is that companies want to reduce their carbon emissions but for whatever reasons don't do that so my plan is very simple I want to first interview some potential customers to learn about the problems and motivations around carbon emissions and three try to understand what an MVP will look like MVP is a minimal viable product to do this research I plan to start by reaching out to Founders CEOs CFOs at startups or bigger companies I'm also going to be shocked to people on LinkedIn that have titles like carbon or climate or sustainability basically Wars that gives me hint that they might be relevant people to talk to so what am I looking to learn well first I'm trying to understand do the company that they work for care about their carbon emissions and two why do they care and why do they not care if they don't care and three who in that company might be the one who cares the most about this uh and why all right so so here are two examples of Outreach messages so the first one is a LinkedIn message to a CFO who I used to work with at Airbnb the message will go something like this first I introduce myself I mentioned something about our time at Airbnb then I say I'm starting a new project briefly describe it but not too much in detail and I just asked for 20 minute phone call or video call that's it and here's another example of a message to someone I don't know it's also on LinkedIn to the same group that I mentioned earlier it's similar but geared towards people I don't know so

How to interview potential customers

Reference

get on the phone or once again on the video call let's talk about uh how to actually interview potential customers so first you want to make sure that these interviews are over video calls phone calls or in person you can learn a lot more from a five minute video interview than 500 or 5 000 sugar responses secondly you want to build some Report with interviewee they're going to give you answers to questions that maybe no one have asked them before so you need to make sure that they can trust you and feel comfortable in this situation next uh the most important thing here the most most important thing here is to not introduce your idea until maybe at the end of the call or maybe not at all doing this too early can bias them in their answers your role here in this interview is to listen not to talk there are some great techniques to get people to open up and talk about their problems and one good one is to ask follow-up questions that are open-ended for example tell me about that if you're not recording the interview you should at least take notes as much as you can you need to translate the recordings to notes anyway so you might as well take notes in the in the actual interview I'm going to play an example video here on uh how a potential customer for my carbon emission company and how that conversation will go like

Hi how are you um it's been a long time since we worked together Airbnb yeah great to see you so I don't know if I told her this but I'm thinking about starting another company and I have a couple questions I wanted to ask you about this era that I'm interested in uh does your company montevue Inc do you care about your carbon emissions we do actually care and we use a consultant who creates these PDF reports once a year interesting uh what do you do with a report I mean right now I don't think we really take much action on it unfortunately well why not it's just really hard to know what to do with the information um the information is really dense and um uses words we don't really understand tell me more about that well we hired this consultant um they asked us to fill out this word doc with information but most of the data that goes into it uh seems inaccurate and I just feel like we need another expert to figure out what to do with the data got it got it um but why is it important for your company at all to track carbon emission well our um and I think there's some regulations coming up too you notice here how I never introduced a product or a solution I only ask questions to learn about the problem that Amy's having I don't even say what I'm going to build that's how you want to do it here are some very specific questions that you can use in your interviews one tell me how you do X today by X of course I'm referring to a specific problem a task or goal that you are trying to solve two what is the hardest thing you are doing about x three why is it hard four how often do you have to do x five why is it important for your company to do X make sure you dive deep into this question like understanding that motivation is going to be critical here and six what do you do to solve this problem for yourself today it's really important to understand what they're doing now if you can watch them do this that's even better if they can screen share during the video call or show you their laptop as you're doing the interview and show you how they actually get the PDF report what they do with it um how it looks like that's the ideal State you want to deeply understand their behavior not just what they're saying but what

Follow ups Don't ask these questions

Reference

follow-up questions and please learn how to make use of these ones it's very hard to get someone to say everything in just one answer to one question get comfortable with asking questions like what do you mean by that or can you tell me more about that or why is that important to you here are some questions that you should not ask like there are ways you can kind of derail this interview will you use our product they're probably going to say yes but they're not going to mean anything to you the answer two which features would make product X better remember their job is to tell you about the problem your job is to think about what features to solve that problem so asking them about your job isn't really going to help you yes and no questions it's not really that helpful for you you want them to explain and give you as many concrete and real examples as possible so just simply asking yes no questions is not ideal here and four um how would would a better product X look like to you how would a better Carbon emission counting software look like to you uh many of the people aren't product developers they're not software Engineers they're not designers they're not product managers this is not their job their job is to do a different job and you are the one trying to understand what is the challenging part about their job and finally um asking two questions at the same time that's going to confuse them it's going to confuse your answers so this is when you're eager to get um get answers it's very easy to do this this thing but try to avoid it but I want to highlight one of the things I mentioned here there's one big danger during interviews and that is to focus on features instead of problems it's very natural for you to do that your bra your brain is thinking through all the ways you're going to solve this problem but really what you're here for during this interview is to deeply understand the problems not actually come up with Solutions that's for for us for a separate event so users generally have good problems but also generally bad Solutions so I'll give you two specific examples so early days of Gmail users were asking um Paul Buchheit the founder of Gmail to view both the Inbox and the actual email that they were reading on the same screen now why would they ask for that well the reason was simply that Gmail is too slow and people did not want to wait to load each of the emails in the inbox they want to see everything at the same time similarly in early Airbnb a lot of guests want to have the phone numbers of the host so they can call them we're like why do you need that it just turned out that they didn't fully trust the platform like we had not displayed enough trust in Airbnb so they needed to feel comfortable uh with getting to know the host before it actually um making the booking secondly um users don't have incentive to say no to really any additional features if you ask for this feature or this feature this feature they'll probably say yes to everything right you however are in charge of the projectations and you have a lot more incentives than they have to figure out which are the most important of the features so let's talk about next steps so you've done your um five or ten of these user interviews you've written down your notes let's let's talk about what you do then one you want to make sure you have notes from all each of the interviews you can use sticky notes or some similar software to organize these learnings you can bucket them in different buckets that kind of describes different problems and see which one is actually the thing that matters the most and then you want to write down your conclusions what are you learning from all of this you want to use all of this information to create a hypothesis or what the solution to this problem might be don't over intellectualize this process really you just want to start assigning MVP as fast as you can but you want to make sure you have accurate information when you decide the MEP and then you'll want to test it with the same users it's also important to know if the problem you're solving is actually valuable what I mean by this is that people will value the solution to the problem enough to pay for it or the problem itself solving the problem is valuable so here's some good tips to determine if it is one are people paying money for other Solutions in the space today are the people that make the PDF reports for carbon emissions accounting are they getting paid well if they are getting paid that's a good sign that this is probably a valuable thing do people already have solutions to this problem they are very happy with even though it might appear Basics to you for example like Excel or Google spreadsheets is actually competitors to many many many hundreds of startups actually quite a formidable one to move someone off Excel a Google spreadsheet you need to make the experience of your solution dramatically better they're not going to pay you hundreds of dollars a month for something they can almost as easily do in Google spreadsheet or Excel and three you want to evaluate how easy it is to sell to this audience and this is one thing that I like to do a lot with the companies I work with for example selling to Plumbers or contractors is notoriously difficult compared to selling to startups the first two groups just don't change their tools or the software very often versus startups are open to trying new things all the time so if you are solving a problem is valuable you still have to think about whether it's going to be

MVP prototype session interviews

Reference

start by showing it to users even if it's just a design prototype in Envision or something like that you can just click through we used to do this at MB all the time we would go downstairs in our in our office and we would find some people that were waiting for an interview or waiting for getting a coffee or something and we just show them the latest version of the app this would be a Envision prototype on our phone it would be Spike hand them our phone and and show it to them this is stuff that we haven't even built yet the key thing but if you're doing this tactic is to not tell them what to do do not tell them what to do just watch them play around with it you can tell them a specific goal like try to make a book in Airbnb or try to do a search with dates and even b or something like that but do not tell them exactly how to solve each screen remember if this was a real product you wouldn't you wouldn't be standing there next to them to give them advice another good trick when you're doing this either when you're listening or having them or recording them is to have them speak their mind while they're doing it have them describe exactly what they're thinking on each of the steps maybe the words that they're reading maybe that will give you hints of what words that they understand and which words they don't understand or maybe what specific screen means or what purpose is and after you've done a bunch of these interviews and then maybe MVP protest sessions it's a great idea to keep these interviewees involved throughout the process one common idea that a lot of wasting companies are using is to create a slack instance or a WhatsApp group for with their customers now you want to make them feel special right you want to make them feel like they have exclusive active access to the Future world changing product so think about how you're wording or or how you communicate this WhatsApp group that you adding them to it's a great idea to keep showing them your product as they are progressing like kind of give them this exclusive feeling that I'm the first one to see this product assets progressing and also as you are reacting to things that they're saying you can ship a new a new screen with a new version of the product um and that builds trust with it with them they now know that you react to their feedback very fast finally some of them will love connecting with other people doing the same thing as they are they don't get to do this very often and um you are the one enabling that if you do all these steps you will collect the right information um from your future users you will keep them involved and transfer the information uh and that allow you to

Summary

Reference

transfer the information into your first prototype and MVP so to summarize here's what I covered today why the best Founders talk to their users throughout the lifetime of the company how to find your users and how to talk to them what questions to ask them and what not to ask them and finally how to turn some of those conclusions into an MVP thank you everyone

Prepared by: Abdulmajeed Al-Muarik

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Startup Business Models and Pricing | Startup School

Video URL

Introduction

Reference

foreign

Outline

Reference

we're going to be talking about business models and pricing there's three main things that we're going to cover in this video the first is the nine business models of nearly every billion dollar company it turns out there's just a handful of them that build the biggest winners next we're going to talk about business model lessons from the YC top 100 companies list and finally we're going to cover some startup pricing insights that we've taken from the

9 business models that build billion-dollar companies

Reference

business models that build winners if you're not familiar a business model is a fancy term for how you make money and it turns out the business models are important because we see Founders that often get frustrated when investors won't fund them and their business won't grow and oftentimes they're not sure why and usually this is because they're not using a proven business model and they're actually only a handful of business models that are responsible for nearly all billion dollar companies and rather than trying to reinvent the wheel you should actually just copy one of these and here they are nearly every billion dollar company is one of these Nine business models there's SAS business models which is software as a service which is cloud-based subscription software that customers pay either monthly or annually in order to access the software there's transactional business models that facilitate transactions and take a cut of those transactions these are often fintech companies and then there's marketplaces which facilitate transactions between buyers and sellers these are often referred to as two-sided marketplaces and there's also hard tech businesses there's usage-based business models there's Enterprise there's advertising there's e-commerce and there's bio and so in this video I'm actually not going to get too deep into the specifics of each of these business models instead we're going to have a business model guide that I've put together that's going to be linked in the description down below this guide is going to cover the metrics that matter most for each business model key takeaways for each of them and other similar companies that you can learn

Business model lessons from the top 100 YC companies

Reference

video what I want to focus on is things that we can learn from the top 100 YC companies the top 100 YC companies is pulled from y combinator.com top companies which is a list of the most valuable companies that y combinator has ever funded and so for the purposes of this video I've gone through this list and I've matched each company up with their primary business model to try to see what interesting insights we can get from them now some later stage and larger companies actually have multiple business models however for your purposes as an early stage startup you should just have a single business model that you're focused on and so here they are these are the top 100 YC companies organized by business model and there's some interesting things that we see here first is that that SAS businesses actually make up 31 of the top 100 YC companies transactional businesses make up 22 percent of the top 100 YC companies and marketplaces actually make up 14 so just with these three business models SAS transactional and marketplaces it makes up 67 percent of the top 100 YC companies on the flip side with business models like advertising and e-commerce they barely register on the top 100 YC companies list if you're familiar with startup outcomes and Venture Capital returns you know that there's a power law effect which means that the biggest winners far far outperform all other businesses by orders of magnitude and this is true for the YC top 100 companies list as well turns out that 50 of the overall value of the top 100 YC companies actually comes from just the top ten and so it's interesting to look at what insights we can get from these 10 companies too and here they are these are the top 10 YC companies by value there's Airbnb there's stripe there's instacart there's coinbase there's doordash there's Reddit there's a number of companies here that you're probably very familiar with or use on a regular basis and what's especially interesting is that five of the YC top 10 are actually marketplaces there's Airbnb there's instacart there's doordash there's openc and there's Fair the interesting takeaway here is that marketplaces are most likely to build winner take all companies they tend to become so big and dominant in their industry that it doesn't leave much room or market share for other competitors once marketplaces actually get huge so marketplaces are 14 of the top 100 companies but they actually create 30 of the overall value because so many are represented here in the top ten and while marketplaces are really tough to get off the ground they have a chicken and egg problem where you can't just build your product and then sell it to customers you actually need to solve for both sides of the marketplace the supply and the demand at the same time in order to get customers however once they hit the inflection point and they start to work they get massive Network effects where each new user of the platform increases the value for everybody else that's what makes them dominant winners so you can think of companies like Airbnb if you are looking to rent out a place short term to stay then chances are you would go to Airbnb because that's where all the inventory is similarly if you wanted to buy or sell nfts you would probably go to openc because that's where everyone is that's how these become the big Winners it also turns out that three of the YC top 10 are transactional businesses too so these are companies like stripe coinbase and brex and the main takeaway here is that transactional business is far outperform because they're directly in the flow of funds this means that they are the platform that money flows through making it very easy for them to just take their cut and so transactional companies are 22 of the top 100 YC companies but they actually create 29 of the overall value and this is because there is close to the transaction as possible this was advice that I received during my YC batch back in 2010 and that was to get as close to the transaction as possible if you're a company like stripe that literally processes money for companies or brex that is the corporate card that they use to spend money then you're directly in that flow of funds and so it's really easy to take your cut on the opposite extreme if you are an affiliate business multiple things have to happen before you ultimately get paid which means that you are very far from the transaction which makes those not as good of a business for transactional businesses because they're so close to the transaction they often become critical infrastructure for other companies that they build on top of and that usually means that they are solving a top three problem for them so you can imagine if you use stripe as your primary method to get paid from your customers the thought of ripping that out sounds terrible you would never want to do that and that's why these transactional businesses become so dominant we also see that SAS businesses are most likely to make the top 100 list and this is because they have consistent Revenue so 31 of the YC top 100 companies are actually SAS businesses that's nearly a third and this is because the recurring Revenue makes them great businesses this means that customers keep paying them every single month or every single year until the customer explicitly says to stop so this has lots of benefits including the predictable Revenue that they get which allows them to compound and grow their business we can also see that very few advertising businesses become big Winners and this may be surprising because we're so familiar with so many companies that have built their business off of an advertising business model there's Google there's Facebook there's Twitter just to name a few but really only three percent of the top 100 YC companies use an advertising business model as their primary way to make money and that's because advertising businesses need organic virality to win they need to catch lightning in a bottle and become the Hub where all users go to to hang out or to see live streams in the case of twitch but when that happens they get really strong Network effects just like marketplaces so people go to hangout on Reddit and form communities there because that's where everybody else is people go to Twitch to watch live streams because that's where all the streamers are and so it's really important to remember member that you should not use ads as your primary business model unless you expect to be a top 10 site on the internet otherwise it's too hard to monetize and build a

Overall lessons

Reference

can take away from this list first it's interesting to look at what's not in the top 100 list there are no services or Consulting businesses there and so it can be a good idea to start doing services or Consulting for your customers primarily as a way to learn and make sure that you're building the right product for them but Consulting businesses suffer from having non-recurring Revenue scaling with people rather than software and having very low margins as a result so that's why these businesses are not Venture scale similarly affiliate businesses they tend to be too far away from the transaction that means that you have to acquire a customer so send them off to another product or service hope that they actually make a transaction on that other product or you will get some small commission from that 30 to 90 days later so it's too hard to make a lot of money at scale doing an affiliate business similarly Hardware businesses they require lots of capital to get off the ground to buy physical parts and they have low margins as a result so that makes it really difficult to start these businesses and also to scale them even if they're working just requires so much capital and then businesses that are built on other platforms you don't see in this list either that's because they tend to have a lot of platform risk if your business is built on top of another big successful platform and your business starts to work then it's actually in the interest of that platform to shut you down and capture all of that revenue for themselves so that's why even if these look like they're working in the early days they can be turned off at any moment we also see that recurring Revenue consistently creates winners and this is because it is highly predictable once a customer has committed to pay they're going to continue paying until they explicitly say that they want to stop paying they also have higher customer lifetime values versus one-off transactions and this results in lower customer acquisition costs so you don't have to keep reacquiring customers over and over if you have a one-off transactional business then you have to invest money in acquiring that customer the first time and then also keep putting more money into trying to get existing customers to spend more with you that's not the case with recurring Revenue businesses but recurring Revenue only works when you have strong retention it's not enough for your product to deliver value right up front and then never again you need to keep delivering value over and over again otherwise your customers will churn and stop paying and then you can't scale a leaky bucket if you have lots of churn and to give you an example of that if you had 95 monthly retention for your recurring Revenue product so that means that five percent of your customers will churn and stop paying you every single month and if you started with 100 customers at the beginning of the year then by the end of the year you would only have 54 customers of your original 100. that means that you would lose 46 of your customers in just one year and you would need to get 46 new customers just to break even with where you started the year and let's say for example you had 90 monthly retention instead of 95 just a five percent difference there and that would actually lead to only 28 customers at the end of that first year that's a huge difference and a huge hill to climb so just that five percent difference in monthly retention can actually be the difference between life and death for a startup we can also see that some of the biggest winners are built with Moats there are network effects that many marketplaces have right where each new user increases the value and they become the dominant player in the market there's also lock-in and high switching costs we see this with transactional businesses like stripe if you're the primary way that people actually accept money and process payments then chances are they're not going to switch off of you in SAS businesses you get the recurring Revenue where customers keep paying over and over again until they say to stop you can also get lock in by having customer data on your platform that once they stop paying all that customer data goes away and then Enterprise businesses while they're often difficult and have long sales Cycles to be able to sell into large companies usually once you've sold into the company the churn is a lot lower technical Innovation is another way to build really strong modes and we see this often in hard tech and bio companies especially so you can think of companies like Cruise building self-driving cars and boom which is building supersonic Jets it takes a really long time to even get to a working product for these types of businesses and So for anybody to compete with them it takes years of difficult technical development just to catch up we also see that higher margins and better Union economics can build modes in the example of companies like doordash and instacart they've reached economies of scale where they're so large now that they've been able to drive their costs further down at this scale and improve their margins which new entrants are not going to be able to compete with and finally if you get organic distribution for your product through virality or Word of Mouth you can dominate your Market through that as well if you are able to get users for free because other users of your product tell new users to come join and you're competing with a company that has to pay to acquire their customers then you are going to grow much faster and capture way more of the market so to recap the best businesses generate recurring Revenue have high retention build defensible moats are as close to the transaction as possible they scale with software not people and they're proven and use business models that are familiar to customers and so it's important that you focus on innovating on your product that's what

5 pricing insights from top YC companies

Reference

all right now let's talk about pricing it's important to think of pricing as a tool to help you learn faster it can help teach you who wants your product how much they want it how much value your product provides to your users and which channels you can afford to use to acquire your customers so to help you get started I've compiled five pricing insights from the top YC companies the first is you should charge this is actually the most common mistake that we see Founders make often Founders are afraid to charge for a number of reasons they're often afraid that their customers are going to tell them no they're afraid that their customers are going to walk away and never come back and they're afraid that their customers are actually going to go and use their competitors product but it turns out that charging is actually one of the most effective ways to learn a lot of really important things about your business the first is are your users even willing to pay or not this is often binary where either they're willing to open their wallet or they don't even see enough value in your product to overcome that hurdle it can also teach you which users are most willing to pay if you're trying to decide whether you should go after customer segment a or customer segment B trying to charge and figuring out which one is most excited to pay can give you really good signal on Who wants your product more it can also teach you how much they're willing to pay by setting higher prices you can try to figure out how much value they see in your product even if everyone refuses to pay that's still valuable information for you to get because it teaches you that you haven't built enough value into your product yet or you're talking to the wrong customer segment stripe is a great example of this in the early days stripe wanted to test the amount of value that they were building in their product so while most of their competitors were actually charging around three percent per transaction stripe decided to set their price at five percent per transaction nearly double what their competitors were charging and the reason that they did this is because they wanted to test how much value their customers saw in things like one-click sign up and being able to get started quickly and really in-depth detailed developer API documentation that would help developers get started faster and so rather than trying to undercut the competition in order to win customers they did the exact opposite and set a really high bar for themselves to prove that they had built enough value into their product so where should you begin the first thing that I recommend is that you don't overthink it if you look online there are tons of charts and graphs and formulas and all these different complicated ways to maximize your pricing and figure out the right price to charge but really when you're just getting started the important thing is to just find the right order of magnitude for your pricing and what I mean by that is if you're charging ten dollars for your product and your customers are willing to pay a hundred you should probably change your price you're off by an order of magnitude however if you're charging ten dollars and your customers are willing to pay 15 or 20 don't worry about it you're in the right ballpark which is the really important thing and pricing isn't permanent this is really important it often takes years to iterate and capture the full value of the product that you've built from your customers and so don't worry about capturing that full value early on you'll have plenty of time to maximize that the next Insight is that you should price on value not on cost and so there's three important components here the first is the cost this is what it costs you to be able to serve your customer the next variable is price this is what you're charging and then there's the perceived value that your customers see in your product and so Founders often start with something called Cost Plus pricing I would not recommend this what this usually looks like is looking at how much it costs you to serve a customer and then adding an amount on top of that say ten dollars and that's your price but this actually ignores the full value of what your customers see in your product so the difference between your cost to serve your customer and the price that you charge that's your margin that's how much you make on each transaction and the difference between the price and the value that your customers see in your product that's your opportunity to be able to raise your prices to be able to capture more of that perceived value and now if your cost is higher than your price well that means that you're going to have negative margins and you cannot scale a business with negative margins similarly if your price is higher than the value that your customers see in your product that means they're just not going to buy from you so how do you find your value well there's a couple interesting ways to be able to do this the first is talk to your users you can ask them about the problem that you solve and get them to articulate the value to you and so what this often looks like is if you reach out to a customer and you get them on a call and you can ask them what is the problem that you are hoping that our product could solve for you and they'll often tell you and similarly if you have a user that's signed up for your product but is not actually paying you you can reach out to them and talk to them and ask them the question what problem were you hoping that our product could solve for you and their response is usually going to be one of four interesting things the first is they're probably going to tell you that they were hoping you could help them make more money this is something every company wants or they might tell you that they were hoping that you could help reduce costs maybe your product saves them time or money they might also say that they were hoping that your product could help them move faster maybe they have something they were looking to launch in six months and with your product they can actually get it launched in a couple weeks that sounds really valuable or they might say that your product could help them avoid risk if you help with compliance or offloading something a headache that they don't want to deal with another way to find your value is to keep incrementally raising prices until you get pushback from users and when you keep incrementally raising your prices you will ultimately find the ideal price which is when customers complain but they still pay this is actually a good thing right it overcomes that fear of charging a high price and customers walking away because the ideal scenario is when you tell the customer a price they say they have to think about it they go back and then they come back to you a week later and they say all right that seems good you're the best solution we're willing to pay up on the other side if you were to actually charge a lower price and they say yeah that sounds great and accept immediately well that probably means that you're pricing too low and you're leaving a lot of money on the table which brings me to my third Insight which is that most startups are actually under charging you almost certainly are and lower prices are not a sustainable Advantage sometimes we talk to Founders and they say well our product is just like our large competitor except ours is cheaper and that actually does not sound like a good idea that's not a way to build a winner all that means is that your large competitor can underprice you even way lower than your cost because they have way more money and they're way larger than you until they put you out of business so I do not recommend having price as your only differentiator it also turns out that when you charge more you get higher margins and you're able to build a bigger moat this means if you have higher margins than your competitors you can pay more to acquire a customer which means you can acquire all of the customers before they do it's also important to remember that pricing implies value when customers are evaluating your product they typically don't have a lot of signals on how valuable your product is but the price that you're charging is actually one of the primary ones so if your price is lower than your competitors then your customers might assume that your product is less valuable than theirs similarly if you charge a higher price then your customers might assume that your product is even more valuable than your competitors so that can work really well and so it turns out that raising prices is actually the easiest way to grow Revenue if you have a thousand customers and you want to double your Revenue well it sounds pretty difficult to spend all the time energy and money to go get a thousand more customers however if you're able to just double your price just changing a number on the website or changing the price that you're quoting to customers in a sales call and your product supports that higher value well you've just doubled your Revenue with almost no work at all but what if users won't pay more this usually means one of two things it either means that you need to build more value into your product right maybe the price that you have raised it to is now higher than the value that your customers see or it could mean that you need to solve a bigger problem maybe the problem that you're solving for customers is just a nice to have that they would never be willing to spend a lot of money for so in this instance it usually means you want to move to a more important top three problem that they have there's a third option too which is you could give a lower price in exchange for one of four key things one you could give a lower price in exchange for your first user if you're just looking for initial feedback and getting somebody on the platform totally reasonable to give a lower price for that or if you're talking to a valuable customer that has a recognizable logo that can be another good scenario where you would give a lower price you can then use this logo that you get as social proof to get other customers onto your platform at your regular price also if your product builds lock-in Say by getting customer data on your platform that they would lose if they leave that can be another reason to offer a lower price and if you're able to renew after the first year and bump your customers up to that higher price that can be a good reason to get people in at the lower price because you know you can capture more value from them further down the road it's also really important to remember that pricing isn't permanent this is another common fear that we see from Founders where they're afraid that they have to nail their pricing the first time or they're going to lose their customer and never have a chance to get them again or sometimes Founders are afraid that the set of customers that they're talking to are the only ones they're ever going to get and so they have to close them all and if that's the case you should probably work on a different business but it acts is relatively painless to be able to increase prices on customers over time too and there's a couple different ways to do this you can exclude existing customers by letting them keep their current pricing and only raising prices for all new customers that's one way to do it or you could give advanced notice that you plan to raise prices and as long as you build in enough value into your product to cover that price increase you shouldn't see much churn most people will probably be willing to pay it if you have a sticky product Netflix is a great example of this this chart actually shows price increases that Netflix has made over the last seven or so years and it's really interesting to see that they are not shy about raising prices on their customers and now Netflix has 221 million paid subscribers and they've been able to figure out how to raise prices because that is the easiest way for them to grow Revenue rather than continuing to try to scale subscriber growth at the same rate so if Netflix is a able to find a way to increase their prices on 221 million customers you should be able to figure out how to do it on your handful of early customers as well and the fifth Insight is to keep it simple this is an example of a pricing page for Quicken and as you can see it's very complex there's five different buy buttons there's prices there's 349 399 599 899 there's crossed out prices there's one dollar off with a symbol right next to it it's really complicated to figure out even if you want to be a Quicken customer which plan you should go with and so this likely results in decreased conversion rates so it's important to remember that when you're creating your pricing you don't want it to create friction that prevents customers from signing up and paying you on the flip side here's a great example from gitlab they have three very clear simple plans with clear pricing and so their pricing and their pricing page is not going to

Story of Segment

Reference

paying them and so I'll leave you with this story of segment which helps companies capture and use their customer data when they started out they were a couple of Engineers that were not used to paying for products themselves and so they thought they had to give their product away for free in order to get anybody to use it and then they wanted to raise money from investors so they decided maybe we should actually charge our customers money so we can show Revenue growth so tail between their legs they reached out to all their free customers and sheepishly told them that they were actually going to start charging them ten dollars per month which was a hundred and twenty dollars per year and so they were really nervous about telling their customers this but surprisingly their customers started responding to them with messages like I hope you would charge me more than that otherwise I'm worried about keeping my customer data with you right the low price was signaling to their customers that maybe their product was invaluable or it couldn't be trusted in the long term and so in order to grow even more they hired a sales advisor and that sales advisor told them you should not be charging a hundred twenty dollars a year instead you should be charging a hundred twenty thousand dollars per year this is an Enterprise product and this scared them to hear this it was unfathomable to them that anybody would ever pay a hundred twenty thousand dollars a year for their product and so when they were going into of their first sales meeting with their sales advisor the advisor told them if you don't tell this customer that your price is a hundred twenty thousand dollars then I quit as your sales advisor so they went into the meeting and at the end when it came time to talk price and the customer said so how much is it the CEO got really red and he got nervous and he said a hundred twenty thousand dollars and the customer responded how about twelve thousand dollars and they ultimately ended up agreeing on eighteen thousand dollars as their price so while they didn't actually get the Thousand X price increase they were able to increase their price 150 times from 120 dollars a year all the way up to eighteen thousand dollars a year and it wouldn't have happened if they didn't ask for the higher price and so they used this philosophy to continue growing their deal sizes all the way up to six figures and Beyond and ultimately led to their acquisition by twilio for more than three billion dollars so the story of segment hopefully is instructive to you that they started out giving away their product for free ultimately ended up selling to huge

Wrap-up

Reference

Enterprises and building a business worth over three billion dollars so to wrap up the five key pricing insights the first is you should charge next is you should price on value not on cost the third is most startups are under charging and you probably are too the fourth is that pricing isn't permanent don't have fear that you need to get it right the first time you can change it over time as you learn more and build more value into your product and finally keep it simple don't add complexity which adds friction to customers giving you their money thank you

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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.

How to Get Your First Customers | Startup School

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Introduction

Reference

foreign School my name is Gustav and I'm a group partner here at y combinator today I'm going to talk about how to go from

Outline

Reference

I plan to cover today one what does it mean to do things that don't scale and why is this mindset so so important at this stage of your company two how to do sales I'll make the argument the founder should be the ones doing sales in the beginning then we'll cover some sales funnel information and then why is it so important to charge for your product and finally we'll learn how you work your

Do things that don't scale

Reference

article or this essay the most important essay ever written about the very early stage of startups is do things that don't scale by Paul Graham Paul is the co-founder of Y commner he published this essay about the early days of Airbnb Airbnb is perhaps the best example of a successful YC company who got their feet off the ground this way many Founders who never worked for a startup or an early stage company incorrectly believe that all you need to succeed is a good product and growth will take care of itself this is not the case the truth is that good product is very rarely built in isolation but together with your customers and as a result it's not actually that good when you show it to your first customers set this another way startups don't take off by themselves startup takes off because Founders make them take off and you have to manually recruit your customers it's not enough to push a button on an advertising Network this is uncomfortable and Founders continuously find many ways to avoid doing this the most common way is believing that you can recruit people by just writing more code or doing more work on your machine or your robot or whatever you're building I know this from my experience of YC that this actually don't work so why am I talking about this right now learning the tactics of sales is just one side of this uh of of this learning the most important side is just really realizing that it comes down to you it's not just knowing exactly how to do sales in theory but actually doing it and actually wanting to succeed another great visualization is what's called a startup curve this was initially drawn by YC found program and then labeled by Trevor Blackwell and you've probably seen this curve before most companies go through something like this it's kind of like a timeline for startups here's how it goes first you launch these days most companies don't launch on TechCrunch but probably on product hunt or Hacker News or some other internet board the launch energy that you get from this launch eventually starts wearing off as early adopters are looking out for something new if you don't have instant High retention nobody does for what you are building then you'll enter the through of Sorrow this can take a long time and many companies die during this stage they just give up and don't move fast enough with testing new things some startups do move fast enough and release new improvements of their product they'll listen to users and they improve many still don't get anywhere further and becomes victims of the crash of ineptitude it's the founders to stay the course and don't give up that reaches the Wiggles of false hope and eventually the promised land of crack Market fit the learnings we draw from the start curve is that every moment in the early days of startups the founders are the ones that make the difference between success and failures if you are in the wrong Market it's the founders that switch to a new one and if you don't know how to do sales it's the founders who learn so you

Founders should learn how to do sales

Reference

sales and how to do sales first Founders should learn how to do sales you should learn how to do sales because you'll need to learn to know your customer talking to customers and sales are effectively different sides of the same coin and the same reasons Founders can't understand what to build they don't understand what the problem is you don't know how to sell unless you know your customers two learning how to do sales actually gives you full control of your destiny as a startup just like you can't Outsource engineering sales has to be part of the DNA of the founders sometimes you just have to learn it as a result you should not hire a sales team until you know how to do sales yourself only then will you know what good looks like you also can't do sales if you practice bad and you won't know if the product is bad unless you've had some effort in trying to sell it first if you don't know how to sell don't worry you you can learn it's probably the easiest job to learn in startup if you know the problem you're solving if you know you're product intimately if you know the market you are an expert in the eyes of the customer they will want to hear what you have to say finally a love for solving customer problems is really infectious if you're really passionate about solving this problem they will be able to tell if you don't believe me here are some examples of Founders who took on the sales job and learned to get really good at it so Tony from doordash matild from front Tracy from plangrid and Steve Jobs let's get straight into an example so these are the brex founders Pedro and henrique when brex was in wycomner in Winter of 2017 they recruit the first 10 customers directly from the YC batch June YC you have the benefit of being around other startups I.E potential customers the brex founders asked themselves what would the minimum product look like that they can build to be useful to other startups and then they went with strain straight into signing up those customers the first version was very very simple customers just had a virtual credit card and Enrique from brex actively onboarded everyone of the customers himself of course they could have waited until they had a full-blown product a website a Mobile app all of those things but they decided to get going when they have something that was really useful this is how their first physical card looked like this before they had this card they just had a virtual card Rex reached out to the their YC batch and otherwise the companies and this is the email that they sent I'm just going to read a brief portion of it hey guys we're opening up our beta for winter 17 batch friends with the 10 spots for beta users 10 spot this sounds like there's a limited spot so I should take actions brex is a corporate credit card focused on technology companies that's me perfect you're actually writing the email directly towards your customers we don't require a personal guarantee it can underwrite startups who just got started this was the value prop most other alternatives to brex did not have something like this so how much does it cost it's free the merchants are paying us so there's zero Annual fees this seems like a no-brainer I would argue that this email is probably a little bit too long but it did work so let's talk about how to write a great sales email so first it should be short Max 6 to 8 sentences the brexit sample on the previous slide is probably too long it still worked but probably too long people don't have time to read long emails if you're coming out of Academia your culture is going to be very different you write very long emails but in the world of sales you want to get to the point and be brief as much as you can two you want to make sure you have clear language no jargon no buzzwords just say exactly what you do and how it works and then three address the problem that the potential customer is having four do not use any HTML formatting write your email in plain text only like you would written it to a friend say you are the founder of the company who makes this product many people forget to do this describe why you and your team are impressive include social proof and remember to show not tell don't say you're an expert don't say how many years that you have been an expert if you're in the YC match if you worked at impressive companies in the past those are other piece of social proof that you can include you won't include a couple of these ones so that the reader knows the source and even if they don't know you gives assign you some authority six you want to include a link to your website the website needs to be simple you have to have information about the product the website should not have a lot of drawings or sort of like paid for graphics you should just have screenshots from your product and bullets about what your product does sometimes it works to send a short video a YouTube video that you can embed in the email that's very easy for the receiver to click on and View and I've even seen people using gifs now those videos and those gifs needs to get to the point right away because the the receiver is kind of intimately familiar with the problem but not really have time to watch two or three or four minutes of a potential solution and then finally you want to include and ask for a call or a meeting or a self-serve whether whatever is appropriate for your company but there needs to be a call to action in the email that you're sending all right let's talk about the sales funnel the concept of sales funnels is really quite easy I think people get

The sales funnel

Reference

here on the left hand side I call it the founder speak on the right hand side I call it the sales speak these are not going to be perfectly mapping but you get the idea so first you want to make a list of customers you plan to reach out to in sales it's called prospecting or lead generation we'll just call it make it the list and you can use Google spreadsheets or something like that to make this list then we want to send them an email or a LinkedIn message or add them on LinkedIn or whatever is the appropriate way to contact these people after that you want to schedule and run a demo or a meeting from that response to the email and then you want to talk pricing and then finally close them as a customer the last thing which you should not forget is after you've closed them you still need to onboard them to make sure that they start using your product if this is successful and you have good retention that could lead to long-term Revenue if you forget the last step then you will have lots of churn because people don't actually know how to use your product and this is common with early products because they are not easy to onboard in the beginning this is not something you spend a lot of time optimizing so make sure that you do the onboarding as part of this process if you go back to the Google spreadsheets that I'm that I'm making that I'm putting in all the information you should start simple but you should have some Columns of things that you're tracking so industry uh the company the title the name the email maybe the LinkedIn this could be enough to start with a lot of CRM software comes with these categories so these columns it's pretty good idea to kind of use a simple CRM software um to kind of accomplish the same goal but the key thing here is doing this work up front and I've seen a lot of YC Founders that when they are getting to a thousand of these they're like oh this is a very simple task I can actually Outsource this and I think that can work if you know exactly what it is you're Outsourcing storing all this information is going to be helpful for you in the future now I made my list I understand this the sales funnel so who should I be going after and how should I be prioritizing as I'm doing the Outreach here's my most important advice when it comes to sales your first customers should be your easiest this is not the time to bite off the hardest one focus on the easiest ones what I mean by that is you should try to do sales make the sales processes easy for you as you possibly can startups don't really have time to chase every lead there's a lot of leads out there you you don't have to pick all of them you really don't you're so early you can pick only the ones that are the most likely to close the best way to do this I have a big pipeline where that means a lot of people that you're emailing are potential customers and then as you're getting responses and you're getting to meetings start prioritizing those who are the most likely to close you can probably tell from their answers to your qualifying questions during the sales call avoid those who are moving slow and don't be afraid of letting customers go don't be afraid of letting customers go what I mean by that is that if someone is dragging you along two or three calls you can always be like it's been great getting to know you um and I've learned a lot but um we should talk again in six months that's totally fine to say two selling to people you know is going to be easy to selling to strangers so you should take advantage of your network three selling to startups is the easiest category and I've I've learned this On and On Again with YC company specifically the ones that sell software it just turns out that bigger companies have more bureaucracy more processes they even have a specific Department that is in charge of negotiating with you and that takes a long time and startups don't have any of these things because they don't have time to create these things but it's not a priority for them so startups have short decision-making lines you can often find that the decision maker right away as you do in the Outreach and you don't have to go through a difficult process that's why startups are easier and that's why we recommend most companies to sell to startups at least leads me to the fourth Point most people are not early adopters and I keep saying this to the white companies I work with all the time the reason you have to sell send hundreds of emails is not that most of those people get really upset and be like I can't believe you emailed me like I really love this alternative product by hate your product that's not what's going on most people they email are just be like archive they just don't care they're not going to try a new product that comes in through your LinkedIn or your email and they might not be the people that try a new product at all in their career that's most people some other people I remember being one of those people when I worked at Airbnb I would love when founders emailed me with new new products and I would be the one signing up for them so when I worked Airbnb and you were a startup email me was great I am an early adopter I love trying new things I don't mind the risk of trying new things so for every outbound uh to an average company that you send you will mostly like most likely on the average outbound average email average LinkedIn reach someone who is not an early adopter to reach early adopters you just have to send more out by messages because then you don't have time to convince anybody to become an early adopter you have to find Aero adopters and just go for them

Charging your first customer

Reference

convince them let's talk about charging it's attractive for you as a founder and for your company to offer your product for free offer free trials or unpaid pilots and these things come in many shapes and forms however if you don't charge your customers they are not a customer and you don't have a company customers paying you money is a great sign that you're providing them real value so you should resist the fear of getting a no because of price instead of figuring out what the price should be if they don't want to pay and you learn this during the qualification process in the first call or the first meeting if they don't want to pay that's a great sign that you should move on to the next customer again fire the ones who seem like they're not good fit move on to the next customers free trials are common for consumers but if you thought about it most consumer free trials ask for the credit card up front and then we forget and then we pay anyway that's because that actually works the best the bdb version of this is a better one than a free trial is a money back guarantee so we charge you if you're not happy you can get the money back in 30 days so 60 days um or even better you have the ability to opt out from the annual contract you just pay for one month instead of the annual fee but you should not offer free trials in B2B sales go for a money back guarantee and go for the ability to opt out instead increasing your price until

Working backwards from your goal

Reference

let's talk about the thing that most Founders get wrong I've seen as many times but there are a few things that most wanted to get wrong and this is one of them working backwards from your goal with your sales funnel in order to work your way backwards from a goal of say two signed customers you have to understand that each step in the sales funnel is going to have a drop-off when you haven't started sales yet you don't know what these draft off percentages are maybe you haven't done a lot of sales before you don't know what you're not good at maybe you're really good at sending emails but really bad at closing or vice versa you don't know that so as you're sending these outbound emails you need to take notes and start tracking all of these conversions in this example I'm sending 500 Outreach emails or LinkedIn messages I have a 50 open rate that means 250 people will open the email five percent will respond that's about 20 potential customers 50 of those will convert to demo from the response which means I'm doing 10 demos that's pretty good but I'm not that good at doing demos only two end up becoming customers from the demos that's 20 I bet you most of you don't even track this data but you should if you track this data you will have some idea of how long it will take to get to 10 paying customers if you don't track this it's very hard for someone to give you feedback of what's working and not working right it's just like when you're launching a new product you want to have some metrics and some user data to be able to tell if it's working when you're doing sales you want to have this data if you have this data people will be able to give you feedback on what what you're good at and what you need to get get better at my advice is to use a simple sales CRM software that tracks these conversion rates automatically let's look at the same second example this is how it looks like for most startups even the ones that I work with in the batch in the second example I'm sending 100 Outreach email it feels like a lot to me if I keep the conversion rates constant from the previous example I actually end up with zero customers and the conclusion the founders draw after this is that sales is not working for me and I should just do marketing or SEO or something else or referrals or something that sounds attractive this is simply wrong you don't have the data to make that call you did not do enough Outreach to actually get to correct conversion rate percentages in your sales funnel so the answer here is you sent a few minutes too few emails you don't have the data you can't draw the conclusion that sales is not working even though you have serial customers and this is the mistake that funders do on and on and on again so to summarize what I just went through here you don't know your sales conversion rate that's why you need a CRM to keep track of it two because you don't know who is an early adopter you have a lot of drop off in the outbound sales that makes up on sales ultimately a numbers game and successful startups we like this and internalize this three you cannot close five customers from 10 leads it's not possible you need a lot more app on than that a lot more and unfortunately most finders don't work their way backwards from this sales funnel and they don't do this exercise and the result they don't succeed as sales and they don't really know why so a friend of mine from Airbnb Atlanta rashitzki he writes an excellent blog and he wrote a great blog post about how YC and a bunch of non-yc B2B startups um got their sales go to market strategy going I recommend reading this and other posts uh newsletter it's it's one of the best ones I've come across it has a lot of real data that he collected from real companies uh many of them being YC companies so in this example here in the second column Lenny is describing the initial sales motion of some of these companies as you can see some of the early ones like amplitude stripe front they were doing app on sales emails just like the one we described to get started those Founders were doing those sales emails as they get started some of the other ones was called Product LED product LED could mean something else than just doing up on sales but it doesn't mean having a big sales team and it usually does not mean doing marketing or SEO or something else practically it means something that the product itself is is sort of like driving the growth as you're running the demo um your goal is to close your first customers you want to ask a lot of questions up front in the demos and there's the founders who should do the demos because you are the one knowing the product and you know the customer pain points here are three examples of YC emails that led to customers so I'll let you guys look at the details of these afterwards but this is an app on email that led to uh 72 000 a year contract this one LED is a very specific email that led to out Landing a goalie as a customer and this third example here is the one email the

Summary

Reference

same email they got them 22 different customers all right I'm going to summarize this again the biggest mistakes that most finders do is they don't do enough Outreach because they don't work package from the goal believing that something else then sales is going to solve your sales problem Outsourcing sales is wrong you should do it yourself and you need to qualify your customers during your first call here are some of the tools I recommend so there are many many many tools this is perhaps one of the biggest categories of potential things you could use as you're doing sales but I recommend apollo.io close.com formerly called closed.io pipedrive or hunter.io these are great tools that you can use either as a simple sales CRM or Hunter you can use to get contacts or potential people to email from LinkedIn here are two additional resources if some people ask me for books usually there aren't good books but there is actually one that I come across I find really good it's called founding sales and then I also recommend lineage newsletter.com there are of course other ways that you can grow as a startup but the truth that I've learned is that even if you end up with say like Airbnb where the sources of growth is Word of Mouth Google search referrals Facebook advertising if those are the kind of end states of your growth strategy that's not how ambica started they didn't start by running Google sem or Google SEO the referral program did not bring in the first 2000 customers they did things that didn't scale and they looked different than the one they do at scale so a lot of companies are shorting straight into What's called the scalable growth channels the channels that they've heard work which is true at scale but that's not the same thing as when you're getting started so in this slide I'm outlining kind of like just a rough idea of like even if it turns out the Google sem and Google SEO is what's going to work at scale you need to find another place online where these people that you're going to reach through sem and SEO is identifying themselves online right and that might not be the same as Google if you're trying to go after sem which means search engine marketing it's going to be expensive probably because there's competition if you're going after SEO it's going to take a long time if your growth is say proc LED or virality referrals then personal networks selling through your personal Network to your co-workers is the way to get started of course if you're doing sales you should be doing sales it doesn't change very much like early stage sales to to large sales basically means all the things that I just described here done by 100 people in a sales team with more automation more tools more metrics but it's the same thing and if you practice setup to do online marketing it's not usually how most people start why because you can't really easily talk to people you can't learn from users if the first thousand or first-handed customers are brought in through Google and Facebook those people are not the kind of people that you can easily get on a

30 minute phone call with all right that's all I had today thank you everyone foreign

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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.

How to Build An MVP | Startup School

Video URL

How to Build an Minimum Viable Product (MVP)?

Reference

all right uh today I'd like to talk to you about how to build an MVP or a minimum viable product so if you haven't seen this before this is a meme that we love to talk about when trying to help founders with their MVP it's called the midwit meme the person who is the Jedi these super intelligent the founder who's doing all the best things and knows all the best things and the idiot the first time founder the founder who has no idea what's going on many times these two Founders will actually come to the right decision before the founder who is really smart and is trying to work really hard and do everything right and so in this situation with the MVP the best advice is to actually launch something quickly and iterate get a product into the hands of your customers and then learn whether it helps them or doesn't and then iterate it improve it over time the wrong answer is to do 100 surveys and 600 user interviews and contact every single one of the competitors and spend you know a year fundraising and hire 100 people and you know all these other things that you can distract yourself with that it might appear like other smart things but in reality they really don't highlight the most important point about an MVP which is you'd only really start learning about your user when you put a product in front of it that doesn't mean that the thing you build in RVP is going to work right it's probably not going to work it's just the best way to start the

Pre-launch Startup Goals

Reference

that point the goal that you should have as an early stage founder is you should be getting a product out into the world quickly minimum viable product second you should be talking to some initial customers and trying to figure out what you can do to make that product useful for them you should care about how to help them accomplish their goals and you should try to figure out how can I change and iterate my product so that it actually helps them accomplish those goals and then rinse and repeat talk to more users iterate your product talk to more users iterate your product more often than not after three four five six iterations your VP is going to be very different you have learned so much but by having that conversation with users and by letting them see your product evolve you can actually make them more excited more likely to use your product more likely to pay for your product and you can learn 10 times more than just talking your co-founders or thinking about in your head so the challenge today is that a lot of people are knocking MVPs a lot of people are talking about minimum lovable products or minimum useful products and honestly a lot of Founders actually just want to build you know God level products you know the Steve Jobs level make the iPhone and change the world there's this misconception that starting with something small that might not work very well is a bad idea there are a lot of people who worry that if you start with something small and you give it to a customer and the customer doesn't like the product you'll never be able to talk to them again what I will tell you is this in most cases the people who are interested in talking to a startup are early adopters they're used to using products that don't work very well and the reason why they're talking to you is not because they think your product's going to work great it's because they have a real problem and they're open to using new software so you don't have to worry about losing these people these are the kind of people who try new products all the time these are the kinds of people if you tell them hey look I can't promise it's going to work perfectly from day one but if you keep working with me we'll make it better and make it better and I'll make sure it works for you over time these are the kinds people respond to that pitch it turns out the people who will run away after seeing your product break and never use you again they're never going to try your product in the first place they're not early adopters they don't use new software so you don't have to worry about losing those people

Founders Biggest Fear

Reference

of the things we have to work on at YC a lot is fear and this is the biggest fear that Founders have it's a non-specific fear of oh my God if I give people my product and they don't like it boom my company dies and it's always like hilarious because when we think about this it's like well your company doesn't actually die right like it doesn't die tomorrow it's not like game over you haven't run out of money all your co-founders are gonna quit whenever we encounter these Fierce scenarios we like to dig in and kind of ask like well what would actually happen like imagine the worst case scenario you do talk to a customer you do demo your product it doesn't work they don't want to use it you wake up the next day is anything that different can't you reach out to someone else can't you reach back out to that customer who you demo to a week later when you've made the product better is your startup actually dead more often than not when you have this fear what you should be doing is kind of leaning into it and asking yourself is this fear real is my company actually going to die if this scary thing happens and it's not bad to feel the fear but it is bad to act on it it is bad to spend one year building your MVP because you're afraid the first customer might not like it now there's another group of folks who thinks I know what the perfect product is and I know it's going to take a year to build why would I build shitty versions of it I like to call these folks fake Steve Jobs and it's really a massive misconception of what great product people do a lot of people thought of Steve Jobs as the kind of person who could just imagine great products in his mind and then bring them out into the world but what's funny is that most of the time when people think about the products that Steve Jobs is most known for let's say the iPod and let's say the iPhone people don't take enough time to look at all of the different iterations of those products over time often when someone tells me like oh well you know Steve Jobs released an amazing phone first time I say well do you remember that the iPhone started without an app store do you remember you couldn't take video with the first iPhone do you remember the first iPhone only had 2G and not 3G so it really really really bad internet like most people don't remember that most people the iPhone that they actually think of as an iPhone was like the third or fourth iteration of the iPhone the first version of the iPod had like an actual physical scrolling device where like Sam would get stuck into it and it would break all the time even the great Steve Jobs iterated his products over time so if you find yourself being a fake Steve Jobs thinking I know exactly what the customer needs I just needs to raise 10 million dollars and spend a year building it and then launch it think again right like if Steve Jobs needed

Examples

Reference

look at some examples and in all these examples you're going to see three pretty simple points first all of these products were fast to build they could get out of the market quickly second they all had very limited functionality the third and interestingly enough all these products appealed to a small set of users these Founders realized that just making something that is smog for people's loved was far more important than making something that could address all the

Airbnb

Reference

of Airbnb looked like and if you were a user when Airbnb first launched here are some of the fun things that you didn't get to experience there were no payments if you found a place on Airbnb you couldn't pay for it there you had to arrange for payment some other way there was no map view so there was no way for you to actually see where the places were in the city that's a pretty basic one three even more funny you had to stay on an air bed like you couldn't rent out your whole house you couldn't rent out a room in your house then fourth the first version of Airbnb only worked for conferences they would literally spin it up in a city when there was a conference when the conference was over they'd spin

Twitch

Reference

one's my company twitch twitch started as a site named Justin TV where my co-founder Justin had a camera on his head the broadcast 24 7. in the first version of twitch there was only one page the page that you're seeing here there's only one streamer his name is Justin there's no video games except for like we randomly would play video games sometimes like uh Guitar Hero or something like that and streaming was ridiculously expensive we were paying a CDN we hadn't built our video system yet but this was the first version of our product now when you go

Stripe

Reference

stripe this was the first version of stripe back then it didn't even have the name stripe it was called slash depth payments back then they had no fancy Bank deal they were working with a tiny Bank there was literally no direct apis with that bank for setting up accounts so they'd have to call the bank and every night file manual paperwork for you to get your account set up and there are almost no features in their API the first version of stripe was so basic that even us back in the day at twitch couldn't use it because didn't have enough features but the folks who could use it were early stage YC startups who all they wanted to do was accept simple credit card payments from their customers that's all stripe did in the beginning and that was more than enough to get started so you might ask yourself who are these people who actually want to use crappy MVPs you're telling us that they're going to be built fast they're going to probably not work that well and we're gonna have to iterate the hell out of them in order to actually make them good who are these early adopters who'd want to go through that experience there's this fun analogy that I was told as an early stage founder it was you want to build your first version for customers who have their hair on fire and it never quite understood what that meant I mean like it makes sense I

Solving Hair On Fire Problem

Reference

guess but I always find it more useful when I attached a story to it so imagine that you are a person and your hair is on fire right now as you're watching this now imagine if I was sitting in the room next to you what is the thing that you wish I could sell you to solve this problem your hair is currently on fire probably most of you will think some version of a bucket of water hose some kind of water thing now that is a great product that's like the iPhone today that would solve your product immediately I don't have that I'm a Founder I've got an MVP what I'm selling is a brick now what would you do if I was selling you a brick now some of you are like well I would you know I would leave the room like I couldn't use a brick your hair's on fire you would buy that brick and you would hit yourself on the head with the brick to smother the fire that's an MVP it's not the perfect solution but you are in so much pain as a customer you will use a non-perfect solution to solve your problem that's the customer you should be going after for customers who are not desperate you can wait you don't have to go after them now just go after the desperate ones first don't make your life a lot easier now I know some of you um especially those who've gone to business school I know a lot of you have said I can skip this step instead of building an MVP iterating iterating why don't I just survey my users why don't I just talk to 100 users and they'll tell me what to build I wish this was the case I wish that users could just tell you what to build and then if you built those things you'd win in fact I think every business wished that was the case here's the problem your customers are experts in their problem but they actually don't have all of the answers at how to solve their problem that's your job that's the job of the person who's building a new product surveys might help you understand the pain that your customer is going through but they will never help you figure out how to solve that pain the only time that you start having that conversation with the customer is when you can put a product in front of them preferably a crappy MVP and start saying does this solve your problem I haven't really seen a shortcut to this step I haven't seen a shortcut of building something pretty fast that's pretty crappy to get started and even for larger companies even for enterprise software companies if you go back in time the first versions of their product they were not perfect they were far from it they were the minimum that those customers were willing to use so across the entire board you gotta start with the minimum viable product I think one of the most important points that I want to leave you with is that you don't start your startup with all the answers building a startup especially the first phase of building a startup pre-product Market fit is all about learning it's all about taking some of the insights that you start with bringing them to the market and learning most of the solutions most of the best parts of product to use today were discovered after those products were launched when those Founders were learning from their users and building and launching MVP is the fastest way to start the process of learning and the faster you learn the more likely you are to build something that people love before anyone else so let's say I've convinced you that now you actually want to build an MVP how do you make sure you do it quickly here are some tricks one give yourself a very specific deadline it's a lot easier to make sure that you're building something that's the minimum viable product if you give yourself two weeks or a month or a month and a half to complete it versus if you don't give yourself a deadline second write down your spec if you think that there are five or ten features required in order to launch an MVP write them all down don't put yourself in the position we are constantly trying to figure out should we have that feature should we not have that feature I don't remember the feature we talked about the other day how should it look how should it work if you write it down then you can just focus on building instead of continuously debating what should be built number three cut that's back after you write all that stuff down go through each one of those items and ask yourself there's a truly desperate customer need that feature to start you're probably surprised at how many features you can leave off for the second third or fourth version of your product and just get the basic stuff out first and then number four and most important don't fall in love with your MVP It's Gonna Change you're going to iterate it it's going to get very very very different over time you want to do it fast and you don't want to fall in love with it you want to fall in love with your customer with your user not in love with the crappy initial product that you're building to start learning from that user all right so hopefully you don't need any more convincing you understand that the simplest and easiest path and the smartest and most Jedi path is to build and launch your product and then iterate it and so I wish you all a lot of good luck and while you're building remember one thing it's far better to have a hundred people love your product than a hundred thousand who kind of like it so when you're releasing that mvp it's totally okay to do things that don't scale and recruit those initial customers one at a time if you care about those customers I promise you they will talk to you that you can work with them and you can help them figure out how to solve their problems and as a result help figure out how to build a great product for them thank you very much and good luck foreign

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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.

The Best Way To Launch Your Startup | Startup School

Video URL

Launching Your Startup

Reference

foreign head of Outreach at y combinator so I've been at YC for about nine years now and that means I've seen over 3 500 companies go through the program and launch at YC one of the things my team does is help companies with their first launches and today I want to change the way you think about launching most Founders overthink their first launch they think they have just one shot at launching their product publicly and that the messaging has to be perfect or that no one will ever buy or use or invest in their product I talked to Founders constantly who lovingly prepare their launch for months but if you're like most startups you'll launch something and no one will care and if it takes you six months to get the first version of your product in front of anyone your startup may be dead before you get another chance to launch So In The Same Spirit of always be shipping I want you to think about launching as something that you do continually so here's what we're going to talk about today first we'll talk about when to launch and why second we'll walk through some strong one-line company descriptions including some that I pulled from the startup School community and third we'll talk about the

When Should I Launch My Startup?

Reference

ask when should I launch and the answer is ASAP it's probably right now why so Founders are really good at lying to themselves a lot of you have really strong convictions about what you're building and that's good Founders need that conviction but many of you have strong but theoretical Notions of how you're going to solve a problem and how people are going to interact with what you're building so putting your product out there even in its earliest state will help you determine whether you're solving a big enough problem that someone is willing to pay for you or use you even in the products really unpolished state so if you launch too early what's the worst case scenario what's the worst thing that can happen people might think the product is ugly or it sucks investors might hear about the product before it's ready you know competitors might see it or Worse no one will see it or no one will care and that's fine just launch again Airbnb launched three times before they really started to get users launching and having no one care that feels terrible but it's not a reason to give up it's a reason to iterate and launch again launch and iterate launch and iterate until you have a core of users who really love you Paul Buchheit he's the creator of Gmail and a long time YC group partner he has said it's better to make a few people really happy than to make a lot of people semi-happy so early on as long as you've made something that a few users absolutely love you are on the right track it'll be good for your morale to have even a handful of users who really love what you're doing and it'll help you figure out what to focus on what is it about your product that they love and how can you do more of that where can you find more users who love that sort of thing that you're doing if you have a core of users even 10 users who really love you all you have to do is expand that number and it might take

One Sentence Pitch

Reference

we've determined you should all launch let's talk about something every one of you needs before you launch to create a strong one sentence pitch you need Clarity of vision we believe that people who have thought deeply and about about an idea can explain it clearly and succinctly they use less words they can explain con complex Concepts in a way that a five-year-old can understand and having a clear idea is important because a clear idea is the best foundation for growth the best companies and movements grow organically by word of mouth and that's good news because Word of Mouth growth is the cheapest way to grow and if you think back to the first time you heard about something like say tick tock or a slack there's a good chance you've heard about it through a friend or co-worker talking about what you do clearly and succinctly is going to be one of your most important jobs as a Founder it's a skill that you'll need to convince potential co-founders investors users employees and eventually hopefully shareholders to believe in you it's also a skill you'll need to grow to grow you need to get all these groups of people talking about you to help you spread the word that's why it's necessary to make it easy for anyone your grandfather or the person that you meet at the airport to talk about what you're doing so that word can spread about you virally when people sit down at the dinner table they should be talking about you and your company and you don't have to be naturally good at talking about your company at first it takes some of our

How to Create a Short Memorable Description

Reference

coming up with a short memorable description of your company so first we recommend leading with what not with why and this may seem counterintuitive because we tell most stories chronologically it's natural to start with you know how you discover the problem you're solving and why it's important and one reason a lot of you do this is because you're all very ambitious people and you want to solve these big problems and that's really awesome and Founders need that ambition but when you only have a limited time with someone it's important to give them context up front so start with the company name and what you do and there's no need to set up the problem just get to the point so I'll use a real example from a YC companies application the company is called pave if they'd started with why they were building this company they would have said many of my friends are super confused about their stock options and it pisses me off how stressed they get thinking about them but before you give me the back story again start with one sentence that tells me what you're building First Press people and investors and even other Founders get pitched tens of times per you know per day definitely per week and they have particularly short attention spans so here's the actual description of the company pave pave lets companies plan communicate and Benchmark your compensation in real time this is a straightforward description of what they're building and who they're building for they are building 2 tools to make compensation and pay more transparent for companies uh and and their employees so hopefully whoever you're talking to asks follow-up questions and then you can get to the why later so the second mistake Founders make is adding a lot of meaningless marketing speak to their pitches so this is a tweet from Gary tan he said meaningless jargon is the number one issue I spend time trying to fight when helping startups so here is an actual description of a company don't worry it's not a startup School company or a YC company indiecloud is a know-how and Synergy platform don't say like this it has zero informational content about what you actually do when you're describing your company the person you're talking to should have some idea of you know what they'd have to build to reproduce what you're talking about a know-how Synergy platform could literally be anything it could be a collaborative edtech company or it could be a Marketplace for experts like you literally have no idea what you what you'd have to build to reproduce a know-how Synergy platform another mistake Founders make is rambling they just go on and on and on and don't do this the person you're talking to will have already zoned out so here's the actual description Airbnb used on their YC application we built the first Online Marketplace that lets Travelers book room to locals instead of hotels this is a tight description it describes the problem they're solving and who they're solving it for so here's one I pulled from the startup School Forum open queue find and talk to your target B2B users fast again they tell you the problem they're solving and who they're solving it for they're making it easy for B2B companies to reach potential customers and you can sort of imagine what you might have to build to reproduce what they're doing okay here's another one I pulled from the startup School Forum yum it's a clever name adaptive ml driven mental health for your team and I get this what this is It's a digital mental health tools to help your team cope with stress and burnout but I think you can Workshop it a little bit if you're showing this to potential customers I think they'll care less about the fact that the product is ml driven and more about the fact that it's personalized digital therapy so I I changed it up to

When is the X for Y Construction Not Too Cliche?

Reference

personalized digital therapy programs for your team some people ask me whether the X for y construction is too cliche to use when describing their company and let's be honest the term you know Uber for x or Airbnb B for X has been a bit overused I want to emphasize that all of you should have a one-line description that does not use the X for y construction but the X for y construction can be used in certain cases so for example paisy which is a YC Alum can describe themselves as stripe for his former Soviet Union countries but they could also describe themselves as payment processing for former Soviet countries but let's talk about when it's okay to use the X for y Construction going back to paisy if the founders are talking to people in Silicon Valley so investors or press for example uh then it might make sense you might use the X for y analogy if it really is the best way to paint a picture of what you're building very quickly if you go with this construction you need three ingredients first of all X should be a household name second it should be reasonably clear why y might want X and third y should be a huge market so one YC company described themselves early on as buffer for Snapchat even know buffer is doing well as a company it's not a company that not everyone necessarily knows when I was reading this description in their YC application I literally had to go to Google and Google buffer so in this case you're better off describing the problem that you're solving so here's an X for y example from the startup School community that I think works hark alive is Airbnb for dance and movement classes it paints a fast picture of what Harker live is but honestly you could also just as easily say harkalive is a Marketplace for dance and movement classes so to review the best one-liners are descriptive they describe what you do the problem and who you're solving it for they're conversational and don't use jargon or marketing language and there's no long-winded lead up they're concise short and sweet so now that you know what you need for a good one sentence pitch let's talk about why you want to launch continuously even before you have a fully functioning product launching early gives you the chance to practice and refine your idea you can a B test the idea or messaging on people you get an opportunity to see how people respond to it and then once you have a product launching through different channels will give you an opportunity to see how people respond to the actual product and launching on different channels will also help you determine whether you're even talking to the right users different channels will naturally reach different audiences so let's talk about some of the types of launches you can do in your early stages here are different types of launches and I'm going to go through each one of these briefly so first is the silent launch and this is something every one of you should do while you're in startup school I clicked on 10 random startup School companies today and only half of them had landing pages so you don't need anything fancy at the very least you need a domain name your company name a short description a way for users to contact you and a call to action your call to action might be sign up for a newsletter or sign up to here when we launch here's an example of a startup School company landing page Lara they have their domain name a company name short description and a call to action sign up for the wait list and this is all you really need the next type of launch is to friends and family even if you're at idea stage you can test out your one to two sentence pitch on friends and family and once you have an MVP you should do a friends and family launch as quickly as possible so in its earliest days Reddit was shared among the founders of the first YC batch I use the Wayback machine to find the earliest view of Reddit I can find from 2005. so this was even before they called upvotes upvotes so share your product with friends and family watch them use the product and ask them for feedback but one thing about the friends and family launch don't stay in this phase for too long because your friends and family might not be the ideal users for what you're building and sometimes their feedback isn't going to be as helpful as a real users next type of launch launching to strangers I want to share the MVP for doordash this is the very first version of the doordash site when they first started out the founders were building other things they were building tech for small business owners and so they started approaching store owners for feedback and they spent a lot of time talking to this one store manager Chloe she was the manager of a macaron store in Downtown Palo Alto in talking to Chloe they realized that the app they were building really didn't solve any of her problems but just as they were about to leave Chloe always said hey there's just one thing I want to show you and it was this thick booklet with pages and pages of pages of delivery orders she said this drives me crazy I have no drivers to fulfill them and I'm the one doing all the deliveries over the course of the next few weeks the founders interviewed over 200 small business owners across the bay area and they kept hearing the same issue deliveries are painful then after they you know absorbed enough information about the product they built this their MVP in just a few hours so if they'd waited too long to get direct feedback from their customers they might have spent way longer you know six months plus building out the wrong solution for small business owners so I'd recommend you get out there even if it makes you slightly uncomfortable and start talking to your potential customers as soon as possible do what doordash did and talk to 200. so next is one of my favorite ways to launch through online communities so I think you should plan a launch for every single community that you are part of when a company goes through YC for example they have the option of launching on Bookface before they launch publicly Bookface is our internal platform for Founders it's like Facebook meets LinkedIn meets quora all for YC Founders and there are currently over 6 000 Founders on bookbase so for many companies in YC it's a good way to get some first users and some early feedback and it's a fairly low risk way to launch because you're launching in front of a friendly community of other Founders there are countless examples of companies that have launched and gotten their first or first thousand customers through online communities another community that you have access to is Hacker News they have something called show hn so many YC alumni Dropbox and git lab for example and hundreds more have launched on Hacker News Robin Hood is an example of another company that successfully launched on hn so back in December 2013 they had a really simple site and all it said was commission free trading stop paying up to ten dollars per trade at the time they only had a button that let you join a waitlist the waitlist would show you how many people were ahead of you in line and how many people were behind you in line so it was a Friday night and they'd been working on building this wait list in preparation for a launch they were planning the following week with someone totally random posted them on hn and boom they got to number one on hn and ended up getting 10 000 signups the first day and then over 50 000 over the next week so each Community is different they have different tones audiences interests launched communities you're genuinely genuinely engaged with so be authentic don't get bogged down and too much marketing and promo language people these days just shut off when they see that do your research and get an understanding of what will compel members of that Community to be interested in what you're doing so we don't have time to do a huge Deep dive into these next types of launches but I wanted to skim them briefly and share some resources and things that I found recently so in a q a we did with the replit founders a few weeks ago you asked amjad and Haya how did you get your first users and they said you just have to be everywhere Hacker News Twitter Reddit Etc so I wanted to share a thread that YC Alum Catherine cross tweeted out about building her community on Tick Tock Anja Health Catherine's company helps parents freeze their babies umbilical cords and placentas for there's some stuff for their stem cells so she wrote This Thread about how she committed to posting tick tocks to start building a community in advance of the company's launch and in just a month she hit 10 000 followers so she shared this thread on tips for building a community on Tick Tock which uh we will link to in the chat there is of course the pre-order launch and if you are a hardware or product or physical product you can do a pre-order campaign on a platform like Kickstarter or Indiegogo so preparing uh for a pre-order launch could honestly be a whole presentation of its own and honestly there's a little bit more skepticism about crowdfunding and pre-orders than there was say five years ago so it's worth thinking about whether it's the right thing for your company but YC Alum ship Bob wrote a guide on pre-orders that talks about why you should or should not consider doing this type of campaign there are a lot of great you know sort of guides that walk you through uh pre-order campaigns and how to prepare for them online as well all right and then there's the waitlist launch we talked about a really good example of that with Robin Hood earlier and there are other examples like superhuman uh that launch successfully with a wait list one note on the waitlist launch the longer you wait to launch an actual product and the longer you wait to onboard people the harder it is to convert people from your waitlist so please don't sit on your waitlist for too long okay so why are we not going to talk about press it all in this talk these days if you were an early stage company that hasn't raised you know say a million or more it's going to be incredibly hard to land press stories at least in the U.S but that said even if you do land press it's not a silver bullet it's not a scalable way to get users it might help you get in front of some early users and investors but as you see press can't be counted on for sustained growth it will not get you to product Market fit so don't spend a ton of your time during startup School worrying about getting press what I do want to emphasize is while you're in startup school you should start to build your own Community it can be as simple as starting an email list of your supporters and figuring out you know how to engage them on an ongoing basis and you may be surprised who reads the email and shows up to help and in the future every time you release a new product or a new feature you can use all these channels to launch on them again stripe has always been great at engaging with the community each time a new product launches they blog about it they've the founders get on Hacker News and they talk to the hn community they spread the word on social media they pitch press stripe they are Masters at launching again and again so to sum up I want you to stop thinking about launching as just one moment in time if you launch and no one pays attention do what Airbnb did and launch again and again

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.

Tips For Technical Startup Founders | Startup School

Video URL

Intro

Reference

How to Build and Perpetuate as a Technical Founder

Reference

succeed as a technical founder for the startup School talk quick intro I'm Diana who I'm currently a group partner at YC and previously I was a co-founder and CTO for Azure reality which was a startup building augmented reality SDK for game developers and we eventually had an exit and sold to Niantic where I was the director of engineering and heading up all of the AR platform there so I know a few things about building something from was just an idea to then a prototype to launching an MVP which is like a bit duct tapey to then scaling it and getting to product Market fit and scaling systems to millions of users so what are we going to cover in this talk is three stages first is what is the role of the technical founder and who are they number two how do you build in each of the different stages where all of you are in startup school ideating which is just an idea you're just getting started building an MVP once you got some validation and getting it to launch and then launch where you want to iterate towards product Market fit and then I'll have a small section on how the role of the technical founder evolved Pro product Market fit I won't cover it too much because a lot of you in startup School are mostly in this earlier stage and

I'm excited to give this talk because I compiled it from many conversations and chats with many YC technical Founders like from algolia segment optimal easily way up so I'm

What Does a Technical Founder Do?

Reference

founder sometimes I hear non-technical Founders say I need somebody to build my app so that isn't going to cut it a technical founder is a partner in this whole journey of a startup and it requires really intense level of commitment and you're in just a Dev what does a technical founder do they lead a lot of the building of the product of course and also talking with users and sometimes I get the question of who is the CEO or CTO for a technical founder and this is a nuanced answer it really depends on the type of product the industry you're in the complete scale composition of the team to figure out who the CEO of CTO is and I've seen technical Founders be the CEO the CTO or various other roles and what does the role of the technical founder look like in the early eight stages it looks a lot like being a lead developer like if you've been a lead developer a company you were in charge of putting the project together and building it and getting it out to the finish line or if you're contributing to an open source project and you're the main developer you make all the tech choices but there's some key differences from being a lead developer you got to do all the tech things like if you're doing software you're gonna have to do the front and the back end devops the website the ux even I.T to provision the Google accounts anything if you're building hardware and maybe you're just familiar familiar with electrical and working with eaglecad you'll have to get familiar with the mechanical too and you'll of course as part of doing all the tech things you'll have to talk with users to really get those insights to iterate and you're going to have a bias towards building a good enough versus the perfect architecture because if you worked at a big company you might have been rewarded for the perfect architecture but not for a startup you're going to have bias towards action and moving quickly and actually deciding with a lot of incomplete information you're gonna get comfortable with technical debt inefficient processes and a lot of ugly code and basically lots of chaos and all of these is to say is the technical founder is committed to the success of your company and that means doing whatever it takes to get it to work and it's not going to cut it if you're an employee at a company I sometimes hear oh this task or this thing is not in my pay grade no

How To Build

Reference

on how to build the first stage is the ideating stage where you just have an idea of what you want to build and the goal here is to build a prototype as soon as possible with the singular Focus to build something to show and demo to users and it doesn't even have to work fully in parallel your CEO co-founder will be finding a list of users in these next couple days to TF meetings to show the Prototype when it's ready so the principle here is to build very quickly in a matter of days and sometimes I hear it's like oh Diana a day prototype that seems impossible how do you do it and one way of doing it is building on top of a lot of prototyping software and you keep it super super simple so for example if you're a software company you will build a clickable prototype perhap using something like figma or Envision if you're a devtools company you may just have a script that you wrote in an afternoon and just launch it on the terminal if you're a hardware company or heart attack it is possible to build a prototype maybe it takes you a little bit longer but the key here is 3D renderings to really show you the promise of what the product is and the example I have here is a company called Remora that is helping trucks capture carbon with this attachment and that example of that rendering was enough to get the users excited about their product even though it's hard tech so give you a couple examples of prototypes in the early days this company optimizely went through YC on winter 10 and they put this prototype literally in a couple of days and the reason why is that they had applied with YC with a very different idea they started with a Twitter referral widget and that idea didn't work and they quickly found out why so they strapped together very quickly this prototype and it was because the founders uh Pete and Dan and Dan was actually heading analytics for the Obama campaign and he recalled that he was called to optimize one of the funding pages and thought huh this could be a startup so they put a very together very quickly together and it was the first visual editor by creating a a b test that was just a Javascript file that lived on S3 I literally just opened option command J if you're in Chrome and they literally run manually the A B test there and it would work of course nobody could use it except the founders but it was enough to show it to marketers who were the target users to optimize sites to get the user excited so this was built in just few days other example is my startup Azure reality since we're building more harder Tech we had to get computer vision algorithms running on phones and we got that done in a few weeks that was a lot easier to show a demo of what AR is as you saw on the video than just explaining and hand waving and made selling and explaining so much easier now what are some common mistakes on prototypes you don't want to overbuild at this stage I've seen people have this bias and they tell me hey Diana but users don't see it or it's not good enough this prototype doesn't show the whole Vision this is the mistake when founder things you need a full MVP and the stage and not really the other mistake is obviously not talking or listening to users soon enough that you're gonna get uncomfortable and show this kind of prototyping duct type thing that you just slap together and that's okay you're gonna get feedback the other one at the stage as an example for optimizely when founders get too attached to idea I went up the feedback from users is something obvious that is

Build an MVP: The Startup Process

Reference

ideas okay so now into the next section so imagine you have this prototype you talk to people and there's enough interest then you move on to the next stage of actually building an MVP that works to get it to launch and the goal is basically build it to launch and it should be done also very quickly ideally in a matter of can be done a few days two weeks or sometimes months but ideally more on the weeks range for most software companies again exceptions to hardware and deep tech companies so the goal here at this stage is to build something that you will get commitment from users to use your product and ideally what that commitment looks like is getting them to pay and the reason why you have a prototype is while you're building this your co-founder or CEO could be talking to users and showing the Prototype and even getting commitments to use it once is ready to launch so I'm gonna do a bit of a bit of a diversion here because sometimes Founders get excited it's like oh I show this prototype people are excited and there's so much to build is hiring a good idea first is thing is like okay I got this prototype got people excited I'm gonna hire people to help me to build it as a first-time founder he's like oh my God oh my God there's a fit people want it is it a good idea it really depends it's gonna actually slow you down in terms of launching quickly because if you're hiring from a pool of people and Engineers that you don't know it takes over a month or more to find someone good and it's hard to find people at this stage with very nebulous and chaotic so it's going to make you move slowly and the other more Insidious thing is going to make you not develop some of the insights about your product because your product will evolved if someone else in your team is building that and not the founders you're gonna miss that key learning about your tag that could have a gold nugget but it was not built by you I mean there's exceptions to this I think you can hire a bit later when you have things more built out but at this stage it's still difficult so I'll give you a example here uh Justin TV and twitch it was just the four Founders and three very good technical Founders at the beginning for the MVP it was just the founders building software as software engineers and the magic was Justin Emmett and Kyle Building different parts of the system you had Kyle who become an awesome Fearless engineer tackling the hard problems of video streaming and then Emma doing all the database work Justin with the web and that was enough to get it to launch I mean I'll give you an exception after they launched they did hire good Engineers but the key thing about this they were very good at not caring about the resume they try to really find The Misfits and engineers at Google overlooked and those turned out to be amazing so Amon and Golem were very comfortable and awesome engineers and they took on a lot of the video weapon just three months since joining

Principles for Building Your MVP

Reference

going back into the principles for for building towards your MVP principle one is the classic hologram essay on do things that don't scale basically find clever hacks to launch quickly in the spirit of doing things at those scale and the Drake posting edition of this avoid things like automatic self onboarding because that adds a lot of engineering building a scalable back-end automated scripts those sounds great at some point but not the stage and the hack perhaps could be manually onboarding you're literally editing the database and adding the users or the entries and the data on the other counterter thing is insane custom support it's just you the founders at the front line doing the work doing things that don't scale a classic sample is with stripe this is the site when they launch very simple they had the API for developers to send payments but on the back end the thing that did not scale it was literally the founders processing every manual request and filling Bank forms to process the payments at the beginning and that was good enough to get them to launch sooner now principle number two this is famous create 9010 solution that was coined by Paul bukite who was one of the group Partners here at YC and original inventor of Gmail the first version is not going to be the final remember and they will very likely a lot of the code be Rewritten and that's okay push off as many features to post launch and by launching quickly I created a 9010 solution I don't mean creating bugs I still want it good enough but you want to restrict the product to work on limited Dimensions which could be like situations type of data you handle functionality type of users you support could be the type of data the type number of devices or it could be Geo find a way to slice the problem to simplify it and this can be your secret superpowers that startup at the beginning because you can move a Lot quickly and large companies can't afford to do this or even if your startup gets big you have like lawyers and finance teams and sales team that make you kind of just move slow so give you a couple examples here doordash at the beginning they slapped it in one afternoon soon and they were actually called Palo Alto delivery and they took PDS for menus and literally put their phone number that phone number there is actually from one of the founders and there's the site is not Dynamic static it's literally just plain HTML and CSS and PDF that was our front end they didn't bother with building a back end the back end quote unquote was literally just Google forms and Google Docs where they coordinated all the orders and they didn't even build anything to track all the drivers or ETA they did that with using fancy on your iPhone find my friends to track where each of the deliveries were that was enough so this was put together literally in one afternoon and they were able to launch the very genius thing they did is that because they were Stanford student they constrained it to work only on Palo Alto and counterintuitively by focusing on Palo Alto and getting that right as they grew it got them to focus and get delivery and unit economics right in the suburbs right at the beginning so that they could scale that and get that right versus the competition which was focusing on Metro cities like GrubHub which make them now you saw how the story played out the unit economics and the Ops was much harder and didn't get it right so funny thing about focusing at the beginning and getting those right

Choose the Tech Stack That Makes Sense for Your Startup

Reference

at this stage how do you choose a tech stack so what one thing is to balance what makes sense for your product and your personal expertise to ship as quickly as you can keep it simple don't just choose a cool new programming language just to learn it for your startup choose what you're dangerous enough and comfortable to launch quickly which brings me to the next principle choose the tag for iteration speed I mean now and the other thing is also it's very easy to build MVPs very quickly by using third-party Frameworks on API tools and you don't need to do a lot of those work for example authentication you have things like auth zero payments you have stripe cross-platform support and rendering you have things like react native Cloud infrastructure you have AWS gcp landing pages you have webflow back-end back-end serverless you have lambdas or Firebase or hosted database in the past startups would run out of money before even launching because they had to build everything from scratch and shift from metal don't try to be the kind of like cool engineer just build things from scratch no just use all these Frameworks but I know ctOS tell me oh it's too expensive to use this third-party apis or it's too slow it doesn't skill to use XYZ so what I'm going to say to this I mean there's there's two sides of the story with using third party I mean to move quickly but it doesn't mean this this is a great meme that Sean Wang who's the head of developer experience that everybody posted the funny thing about it is you have at the beginning quartile kind of the noob that just learned PHP or just JavaScript and just kind of use it to build the toy car serious engineers make fun of the new because oh PHP language doesn't scale or JavaScript and all these things it's like oh our PHP is not a good language blah blah and then the middle or average or mid-wit Engineers like okay I'm gonna put my big engineer pants and do what Google would do and build something optimal and scalable and use something for the back end like Kafka Linker Ros AMA Prometheus kubernetes Envoy big red or hundreds of microservices okay that's the average technical founder the average startup dies so that's not a good outcome another funny thing you got the Jedi Master and when you squint their Solutions look the same like the new one they chose also PHP and JavaScript but they choose it for different reasons not because they just learned it but they wreck recognizes this is because they can move a lot quicker and what I'm going to emphasize here is that if you build a company and it works and you get users good enough the tech choices don't matter as much you can solve your way out of it like Facebook famously was built on PHP because Mark was very familiar with that and of course PHP doesn't quite scale or is very performant but if you're Facebook and you get to that scale of the number of users they got you can solve your way out and that's when they built a custom transpiler called hip hop to make PHP compound C plus plus so that it would optimize see so that was the Jedi move and even for JavaScript there's a V8 engine which makes it pretty performant so I think it's fine way up was a 2015 company at YC that helps company hire diverse companies and is a job board for college students so JJ the CTO although he didn't formally study computer science or engineering at UPenn he that taught himself how to program on freelance for a couple years before he started way up and JJ chose again as the Jedi Master chose technology for iteration speed he chose Django and python although a lot of other peers were telling him to go and use Ruby and rails and I think in 2015 Ruby and rails were 10 times more popular by Google Trends and that was fine that that didn't kill the company at all I mean that was the right choice for them because he could move and get this move quickly and get this out of the door very quickly I kept it simple in the back end postgres python Heroku and that worked out well for them now I'm going to summarize here the only Tech choices that matter are the ones tied to your customer promises for example at Azure we in fact rewrote and threw away a lot of the code multiple times as we scale in different stages of our Tech but the promise that we maintain to our customers was at the API level in unity and game engines and that's the thing that we cannot throw

What Happens In The Launch Stage?

Reference

part three so you have the MVP you built it and launched it now you launched it so what happens on this stage your goal here in the launch stage is to iterate to get towards product Market fit so principle number one is to quickly iterate with hard and soft data use hard data as a tech founder to make sure you have set up a dashboard with analytics that tracks your main kpi and again here choose technology for your analytics stack for Speed keep some keep it super simple something like Google analytics amplitude mix panel and don't go overboard with something super complex like lock stash Prometheus these are great for large companies but not at your stage you don't have that load again use Soft Data if I keep talking to users after you launch and marry these two to know why users stay or churn and ask to figure out what new problems your users have to iterate and build we pay another YC company when they launch they were at b2c payments product kind of a little bit like venmo-ish but the thing is that it never really took off they iterated so in terms of analytics they saw some of the features that we're launching like messaging nobody cared nobody used and they found out in terms of a lot of the payments their biggest user was GoFundMe back then they also talked to users they talk to GoFundMe who didn't care for any of this b2c UI stuff they just care to get the payments and then they discover a better opportunity to be an API and basically pivoted it into it and they got the first version and again applying the principles that did a scale they didn't even have technical docs and they worked with GoFundMe to get this version and this API version was the one that actually took off and got them to product Market fit principle number two in this launch stage is to continuously launch perfect example of this is a segment who started as a very different product they were classroom analytics similar stories they struggled with this first idea it didn't really work out until they launched a stripped out version of just their back end which was actually segment and see the impressive number of launches they did their very first launch was back in December 2012. that was their very first post and you saw the engagement in Hacker News very high that was a bit of a hint of a product Market fit and they got excited and they pivoted into this and kept launching every week they had a total of five launches in a span of a month or so and they kept adding features and iterating they added support for more things when they launched it only supported Google analytics mixpanel and intercom and by listening to the users they added node PHP support and WordPress and it kept on going and it took them to be then a unicorn that eventually had an exit to Twilight

When You Launch: The Right Way to Build Tech

Reference

the last principle here what I want to say for when you're launch there's this funny state where you have Tech builds you want to balance building versus fixing you want to make thoughtful choices between fixing bugs or adding new features or addressing technical debt and one I want to say Tech debt is totally fine you gotta get comfortable a little bit with the heat of your Tech burning totally okay you're gonna fear the right things and that is towards getting you product Market fit sometimes that tiny bug and rendering maybe is not critical for you at this point to fix like in fact a lot of early products are very broken you're probably very familiar with Pokemon go when it launched in 2016 nobody could log into the game and guess what that did not kill the company at all in fact to this day Pokemon I think last year made over a billion dollars in Revenue that did not kill them and I'll give a little background what was happening on the tech it was very uh very straightforward they had a load balancer that was on Google cloud and they had a back-end and they had a TCP termination and HTTP requests that were done with their nginx to route to the different servers that were the AFE the application front end to manage all the requests and the issue with there it was that as users were connected they didn't get terminated until they got to the nginx and then as a result client also had retries and that what happened when you had such a huge load that in fact I think Pokemon go by the first month after launching they had the same number of uh active as as Twitter which took them 10 years to get there and they got there in one month of course things would break it was basically a lot of users trying to log in was kind of creating a bit of a dito's attack now December is a bit on when you launch some of the common mistakes after launching and I myself has made CTO Doge sad it is tempting to to build and say what would Google do that's almost certainly a trap would try to build like a big company or hiring to try to move quickly sometimes I think this is more of a nuanced question can be a mistake or the other thing is focusing too much on fixing refactoring and not building features towards iterating to product Market fit not discovering insights from users sometimes I see ctOS like okay we launched I get to conquer down and just get into building totally no again your role as a technical founder very different you got to be involved in the journey and really understand the insights of why users Stay or Leave Your products you have to keep talking to them and the other mistake I see is like oh we're just building features for their product but you also need to build Tech to grow in fact some of the best growth hacks where Engineers pair it up with sales

How the role evolved from ideating to hiring

Reference

and growth folks who are non-technical so now the last section on how the role evolves so assuming you got product Market fit what happens this is this point where you can actually then put on your big engineering pants and figure out pieces of the tech that need to be built to scale you need to and the attack will break which is actually a good thing breaking because of too much demand and that's totally okay that's my example from Pokemon go you'll find the pieces that need to be reworked refactor this is when you do it not before now not before product Market fit and you'll decide also what the engineering culture will look like and this is a stage where you actually do more of the hiring and here you're probably going to evolve from leading a small team of Engineers to hiring your first hires who are going to be people that you know and at this point Your Role really changes because you'll start having communication overhead and this is when you realize your role morphs like between two to five you still get time to code about 70 when you get to five to ten you only have less than 50 percent and Beyond 10 you probably won't really have time to code and have to decide how to structure things and whether you're going to remain as a architect type or role or you want to be more of a people role and be more of a BP rich now to summarize uh hear the talk first stage ideating Bill the goal is to build a prototype as soon as possible and the principle is built very quickly in a matter of days stage two you're in the process of building an MVP which I think a lot of you are in this or the previous one the goal is to build as quickly to launch in a matter of few weeks and the principles are do things that don't scale create a 90 10 solution choose the tech for iteration speed and the last one is once you launch all of the previous ideas on 9010 solution do things that don't scale still apply and add these onto it and the goal is to get an iteration towards product Market fit so you're going to also quickly iterate with hard and soft data with analytics and user interviews you're going to continuously launch and you're going to find the fine balance between building and fixing and where techdat is totally fine feel the heat for that Tech that is totally fine and if there's only one take away from this whole talk is that startups move quickly so thank you everyone

Prepared by: Abdulmajeed Al-Muarik

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How Startup Fundraising Works | Startup School

Video URL

Intro

Reference

foreign I'm Brad Flora I'm a group partner here at YC and I'm going to be talking about how startup fundraising works today like I said I'm a group partner at YC and what that means is that I read applications I interview the startups

Fundraising resources

Reference

one of the topics that people ask about all the time at YC is fundraising in fact it's probably the thing that we get asked about more often than anything else and the reason for that is because as Paul Graham wrote years ago raising money is the second hardest part of starting a startup after making something people want so let's take a quick tour of all the awesome stuff that YC's put out about fundraising over the years first there's the Paul Graham essays he wrote the fundraising Survival Guide how to fund a startup how to convince investors to invest in your company and even wrote a great essay about understanding investor herd Dynamics all of the stuff's online you can see the links below you should check it out years later just a little bit ago YC president Jeff Ralston posted a terrific guide to raising a seed round where he covers everything from start to finish that you need to know the Nitty Gritty on how to raise a seed round and he gave a great video presentation at startup School a few years ago where he presented that material it's on YouTube you should check it out it'll tell you how to raise a seed round finally we've posted a lot of tactical guides about specific aspects of fundraising how to build a seed deck how to pitch your startup how to get meetings with investors and how to raise money online for startups using platforms like Angel list we've even got something about the different types of investors and their incentives so if you really want to get specific and drill into stuff there's content for you that you can find what I didn't want to do today is just rehash all of that stuff because it's already out there what I wanted to do instead is talk about some of the misconceptions and myths that we see as YC Partners when we work with Founders Founders out there are consuming all sorts of information in the media and a lot of it is about startup fundraising and there's

7 fundraising myths

Reference

goal of this talk is to catch you up on how fundraising actually works today and we're going to do that by exploring seven fundraising myths and for each one of them we're going to talk about the myth the reality behind the myth and then look at some great YC companies that bust that myth before we get started just a little bit more about me I'm a YC partner but I've also been on both sides of the table as a founder and an investor from 2008 to 2014 I was building startups and the company that I got the most success was perfect audience which was an ad retargeting startup for small businesses I took perfect audience through the YC summer 11 batch 11 years ago and we raised a million dollar seed round after demo day I hired a bunch of great people we grew to three million dollars in revenue and we were acquired in 2014. after that acquisition I got really into investing in startups it started with Angel Investing where I was writing just a few checks five thousand dollars ten thousand dollars into YC companies that I thought sounded really cool at demo day but I got hooked the thrill of going and meeting Founders finding out what their deal is trying to figure out are they making something people want should I invest was too much for me and suddenly I was raising a fund with some friends to scale up and invest in even more YC companies and so through that fund I invested in 150 YC companies and the good news for my backers is that we got into some great companies you may have heard of a few of them deal open C retool razor pay it was really awesome to help those companies raise their first round funding and it's been a lot of fun being involved since eventually though I joined YC as a group partner and I get to do both sides I get act as a Founder as a fellow peer to the YC Founders and help them figure out how to make something people want and then use my investor experience to help them figure out how to raise money so I've got a good view of this I've been

Raising money is glamorous

Reference

for the first one I want to talk about is this idea that raising money is glamorous what's the image in your head that you think of when you think of startup fundraising for a lot of you it might be something like this this is an image of Shark Tank and it's a television show where entrepreneurs they dress up they make a sign they get a bunch of materials and they pitch a bunch of investors at once called sharks and these are a bunch of people of varying levels of investor expertise who hear the pitch ask a bunch of uh nosy kind of pushy questions and then fire offers that the founder rapid fire and so if you watch this you may be thinking gosh I've gotta put a whole presentation together like this and I'm gonna pitch a bunch of people and they're going to ask me all these tough questions and it's going to be this high pressure situation nation that I've got to figure out the reality is that fundraising actually looks like this this is a picture taken in the creamery which is a now departed Cafe in San Francisco notice what's happening here it's just a bunch of people sitting in chairs talking quietly amongst themselves right it's just a bunch of coffee chats that's how fundraising actually looks that's what it actually feels like is just sitting in a cafe talking to someone Shark Tank the pitch competitions the business plan competitions they're just for show they're marketing events for the organizations that put them on and in fact a lot of the investors at these things they don't invest they're just there to meet other investors and hang out and even on Shark Tank I think Mark Cuban recently said that even though he's put 20 million dollars into these companies he hasn't made a dime yet he's still in the red actual fundraising is just a bunch of one-on-one meetings on Zoom over and over again while you try to collect checks and convince investors It's a Grind okay what you see here is a diagram that was made by an actual YC company called fresh paint that shows what an actual round of fundraising looked like for their startup you see at the top the company in each one of these circles and squares represents a different investor that they met with and when the boxes are connected it's because that investor made an introduction for them they met with 160 investors and 39 of them said yes which is a very high conversion rate but the check range was all over the place they had people write 5K checks and people write 200k checks all right not everybody with some fancy VC they could write a giant check and it took them four months and 18 days to get through all these meetings and close all these deals and that was to raise 1.6 million dollars fundraising was painful and it was a grind but it was pretty straightforward it was just a bunch of conversations they've written a great blog post that's where this image comes from that you can check out should

The need to raise money before starting a startup

Reference

okay the next myth I want to talk about is this idea that I need to raise money before I can start working on my startup all right we see this a lot with Founders we meet people that have a big idea which is great and the next thought they have is well gosh I guess I need to raise money so I can build my big idea but that's not how the best Founders actually think about fundraising the best Founders they build the first version of the product first even if it's a simple almost toy-like version of it and then they go get some users for it and then only then when they see that people are starting to use it and maybe there's some value being created do they start thinking about raising money and the reason for this is that it's cheaper than ever to build a prototype of a product to build a first version okay it's cheaper than ever to host a website and and build software it gets easier and easier and easier every year and also it's easier than ever to find potential users you can get users on platforms like product hunt on Hacker News you can find users on social media Twitter LinkedIn everybody's on the internet today and you can use that to find early people to try out your product and when you do this when you've got a little bit of product just a little bit and a few users for it it immediately gives you a great deal of Leverage all right you've gone from that person waving the pitch deck around trying to figure out how to find 20 million dollars to someone whose startup is in motion and investors want to jump on trains that are in motion here's an example solugen is a YC company from the winter 17 batch and they are a chemical manufacturing startup they literally make chemicals and sell them as you can imagine that is a capital intensive business it requires a lot of money to build a facility that can make chemicals and sell them at scale and a certain type of founder that had this idea would then make a pitch deck and go around telling investors I need 10 million dollars I need 20 million dollars to build the menu manufacturing plant to make these chemicals the solution folks chose a different path which is first they built a tiny version of their reactor that fit on a desk but it worked next they built a slightly larger version of that that could actually make enough hydrogen peroxide to sell and they took that to YC when they applied for the winter 17 batch and during the batch they started making enough hydrogen peroxide using this slightly larger version of the machine that they could go and sell it to First customers turned out that hot tub supply stores needed hydrogen peroxide to sell the people that add hot tubs and so they were making ten thousand dollars a month selling hydrogen peroxide to hot tub supply stores not a ton of money but let's step back for a second if you were an investor and you were trying to invest in a chemical Manufacturing Company who would you back the person with the pitch deck asking for 20 million dollars or the people that have built a first version of this even if it's small and making small amounts of the product and selling it to hot tub supply stores which is hardly a huge business but it's something well investors clearly want the second Solid Gym is able to raise four million dollars for to get started on their company because they'd already made some progress and today they've since raised

My startup need to be impressive to raise money

Reference

plant let's talk about our next myth this idea that my startup needs to be impressive to raise money I've got to impress people with my startup but my startups startup is not very impressive so how can I ever do this well the reality is you don't need to impress investors you need to convince them and that's a slightly different thing see most startups seem terrible at first and in fact the best startups seem the most terrible at first so let's take Airbnb what was it it was a Marketplace for renting an air mattress on someone's floor terrible idea doordash food delivery for the suburbs where it takes longer to get everywhere and no one's ever started a delivery company before terrible idea open c a Marketplace for selling Collectibles that only exist on your computer and can only be paid for with magical internet money what but investors get this they know that your startup is going to sound unimpressive early on investors are pretty smart they get it and in fact they get bored when founders try to impress them okay really try to win them over and sell to them it bores them about 11 years ago and I did YC I had a chance to have a five minute meeting with Michael Moritz who at the time and it was a partner at Sequoia capital is legendary VC and I was so excited for this meeting I made a fancy deck I practiced all these lines I was going to use on him to impress him and conv and get him to invest in my startup and I sat down with him and I opened my laptop to get the slides out and he stopped me and just said I prefer to just talk about the business you're building and I was completely disarmed because I wasn't ready for that I was ready to impress him not to try to just talk about the business that I was building and we see this similar thinking with a lot of Founders at YC where they come to us they don't explicitly ask us this but they more or less say Brad what are the magic words I need to say to make investors want to invest in my startup and the reality is that it's not about magic words it's about making something people want right that YC Credo it's about making a product getting it into users hands and creating some value for them and then just explaining how there's a one percent chance even just a one percent chance that it can get huge and using plain simple language to do it that's how you convince investors okay if investors aren't investing it's not because you didn't say the magic words it's because your startup isn't good enough and you need to make your startup better and so have these conversate you make your startup better and you just explain it to people and talk about it like a human and do it over and over and over again because again startup fundraising is a grind here's an example of a company that did a great job convincing investors when they met with them this is retool and retool makes software for building internal tools it's a great company they raise their seed round you see the founder David and one of the CEO and co-founder by just meeting a bunch of investors in coffee shops in San Francisco I was lucky enough to meet with David and he had no DAC instead he just opened his laptop and showed me the software on his computer and he used that early kind of crude version of retool to make a crude but simple internal tool a little web app in minutes and then he talked about why his early customers really liked it and we're getting some value from it and just seeing this seeing him show me the product and talk about what his customers were making of it put in my head this idea that a lot of companies probably are going to need this I was convinced he didn't impress me he didn't try to wow me he just showed me and talked in a reasonable way about what he was doing and that convinced me I wrote a check and today that company is at a four billion dollar valuation wasn't about doing a fancy pitch but it wasn't about magic words it was just about

Raising money is complicated, slow, and expensive.

Reference

about is that raising money is complicated slow and expensive if you read a lot about fundraising in the Press you might think that it involves raising giant rounds from big name VCS why is that well let's take a look at yesterday's TechCrunch headlines about fundraising we've got a story about Shopify Mark Vision locket Sprague what do we see folks what's the common uh denominator here gigantic numbers and so you're reading this at home and you're just trying to think how can I raise twenty five thousand dollars to quit my job or spend more time on this or get a Hosting account for the website that I want to build you're not thinking about a hundred million dollars gosh maybe this isn't for you well the reality is is that all the rounds you read about in the news are series A's and growth rounds you don't read much about the actual you don't read anything about the actual first rounds of funding that companies raise why because it's boring okay it's really boring we already established that there's no glamor in the actual early fundraising that startups do so it never makes the press these typical A and B rounds are huge right you raise 10 to 50 million dollars they take months to close and you pay hundreds of thousands of dollars to lawyers and legal fees to get these rounds done the good news is like I said that's not what a lot of these rounds look like your typical seed round is actually much smaller 500 000 maybe a couple million dollars you can close it in weeks if not days and there's no legal fees and this is the same for if you're trying to raise a precede or just trying to raise fifty thousand dollars from friends and family you can do that quickly and there's no need to get lawyers involved why is that well in 2013 YC created a new standard fundraising document called the safe the simple agreement for Equity so initially this was made by YC to be the new standard document that all YC companies would use and it turned out for fundraising and it turned out to be so great that now every startup uses this to raise their money the safes are awesome first off it's easy to understand it's only five pages long uh it's really fast to close an investment using a safe there's only a couple terms to discuss the amount of the investment the valuation cap of the investment and then the discount and guess what nobody does discounts so there's only two terms that you really need to discuss when closing a safe and finally they're cheap you don't need lawyers to send them also the safe is just on the YC website if you Google why combinator safe you can find the document download it to your computer and use it this afternoon to close an investment in your startup how cool is that safes are so simple that there's even a website called clerky it's a YC company from my batch summer 11 that lets you send and sign them in just a few clicks safes give Founders fundraising superpowers and you don't have to wait months for investors to get organized and for lawyers to review stuff founders today just take all the meetings they sign a bunch of safe and they raise Millions for their startup in just a few clicks and this quick and cheap fundraising gives them more leverage than ever when they're talking to investors here's an example you could build your company like Azure bio so this is a biotech startup from the summer 19 match that's developing cancer therapies again Capital intensive business and the typical first rounds of funding are tens of millions of dollars for companies like this and so Founders go they make a pitch deck and they've got to go get this money before they can start working on the on the startup the founders of Astra came into YC with just the idea and they were able to raise the first round of funding using safes quickly from Angels this is pretty novel for a biotech company and using that first million or so that they raised they could accelerate their progress they could make more progress in the lab and when they were ready to start talking to larger investors in the Pharma space about a proper round they've made a lot more progress and they had more leverage in talking to those investors they've since raised over 150 million dollars but that first million that they raised in safes totally changed the power

I am going to lose control of my company

Reference

them related myth is this idea and I hear this a lot hey if I raise money I'm going to lose control of my company well the reality is that seed rounds today give Founders more control than ever okay Founders have had more can have more control over their companies today than ever in the history of startups and why is this it's because when you raise the safes you don't give up any board seats all right there's there's no board seat nonsense in safes after you close the investment it's still just you and your co-founders calling the shots there's no shareholders after you close money with safes the investors on safes gets shares in the next round okay so no Shares are actually changing hands and there's no information rights granted in safes so there's nobody like requesting to look into your books looking over your shoulder you get to choose how and when to update your investors when you raise money with safes so again Founders raising millions of dollars they're only selling 10 to 20 percent of their company and they're keeping total control of the companies and when you do that you can build the company the way you want and Answer to No One except your customers well pretty important but instead of answering new investors you answer to your customers when you raise seed rounds today here's a great example you could build your startup by zapier they describe themselves as three dudes from Missouri and zapier is software that help you set up Integrations if you've got one app that you use in another app and you want them to talk to each other you can use zapier to set that up it's awesome they did the YC summer 12 batch and they applied with an early version of their software they had a few customers and they raised over a million dollars from angels and small funds at demo day and because they did that because they raised on safes and they just raised a bunch of checks they were able to run their company the way they wanted and for them 10 years ago that meant going fully remote 10 years ago a decade before it was cool for startups to do that it was pretty weird at the time and they ran their company the way they wanted to they spent the next decade just delighting thousands and thousands of customers and they also made the decision to never raise money again they never needed to so folks thinking gosh if I raise money I'm always going to be indebted to investors yada yada no maybe later if you raise these crazy priced rounds but for the early money that you raised on safes you have total control and you can be like the zap your Founders and never raise money again and today that's 100 million dollar Revenue business and they only raised money that one time now what about bootstrapping you might be thinking I should bootstrap my company well everybody bootstraps it first that's true but I want to tell you that bootstrapping your company forever sucks and here's why so first off when you bootstrap forever and what I mean by bootstrapping I mean um funding the company out of the revenue that you make from customers it's scary all right you're always about to shut down you're always about to run out of money it's miserable because you don't have any money to pay yourselves a decent salary to live on it's distracting you have to go into Consulting in order to make the money you need to keep working on your products sometimes you have all these detours when you're bootstrapping and then finally the odds just aren't great there are very few examples of 100 gigantic bootstrapped companies and I think if it was the way to go there'd be a lot more of those I actually want to propose the definition of bootstrapping so bootstrapping is taking the pain of fundraising and stretching it out across the entire life of your company why would you want to do that I propose to you that you should rip off the Band-Aid and take the pain up front and raise money for your company and then you never have to raise money again if you don't want to you can be like the zap your Founders and besides at the end of the day who's more in control of their startup in the end is it the bootstrapped founder who's always worried about running out of money or the founders that raise enough money to get the company going after they've built a product and gotten some users

I need a fancy network to raise money

Reference

and they can just make their customers happy and they never have to raise again the next myth I want to talk about is this idea that I need a fancy Network to raise money the reality is that if you are making something people want investors don't care about where you went to school where you worked who you're friends with how old you are even investors are human and sure they notice pedigree but guess what folks investors are coin operated lizard people and they care a lot more about making money you can build your company like Podium Podium is a company that started off making customer review management software for tire shops all right if you're a tire shop and you're worried about what people are saying about you on Yelp you might use Podium to keep track of that the co-founders were two guys from Utah they had no Silicon Valley Network however they were really good at sales and they came into YC they were already making money and by the end of the batch they were making tens of thousands of dollars a month I actually randomly bumped into them at an alumni event during their batch and I was stunned that there was a company selling software to tire shops in y combinator and even more stunned when I found out how much money they were making investors noticed that too that they'd made something people want and they were able to raise and now today that company makes a hundred million dollars a year and has raised more than 200 million dollars these folks had no network these are not fancy Founders they just made something people want slight tangent while we're on this topic you'll probably run into people if you're thinking about fundraising who are going to offer to raise money for you I have the network I know investors let me go in there and Pitch your company it is not a good idea it's always best for the founders to talk to investors themselves it's an important relationship and you want to own it so if someone makes you that offer you should get them to make an introduction instead and then you can go take the meeting all right the last myth I'm going to talk about today is the myth that if investors reject my startup that means it's a bad startup the reality is that no matter how great your product is how much traction you have investors are going to reject you and that's okay in fact it puts you in great company right here's a great example Envision so Envision is a medical device startup for cancer detection and it was started by serbisarna who's a YC group partner today when Serbia started building Envision she had a devil of a Time raising her first check she was rejected more than 50 times by investors to just get the first money for the company and the way that she was able to convince someone to write that first check and to help her get this company started was she she told them she was going to bet on herself and take no salary for the first two years if the investor was willing to bet on them and that was for a 25 000 check her first round of funding for the company was only five hundred thousand dollars but she got it done and she got even though she got rejected over and over again and since then the company was acquired for 275 million dollars so here's this awesome medical device company that sold for hundreds of millions of dollars and yet rejection after rejection after rejection if you want to read more about serbi's story she actually has an awesome book coming out in the spring and it's on Amazon right now and we'll share the link with you in the chat if you want to check it out and pre-order it Serbia is awesome it's a privilege to get to work with her and the book is terrific one other example of this is what not it's a Marketplace for Collectibles they were in the winter 20 batch and they came in with a beta product but no users they hadn't launched yet and during the batch they got started and it was just initially a Marketplace for selling funko pop toys toys with the big heads during the batch they got some early traction they started making some money they got in some buyers they got in some sellers Revenue was going up sales were going up things were looking good right but investors hated it and they only raised a fraction of the amount of money that they were hoping to raise for their seed round and the amazing thing is is that today what not just two and a half years later is worth 3.7 billion dollars and they've raised over 400 million dollars and just two and a half years ago they couldn't pay people to invest in their company at a fraction of that valuation everyone gets rejected it's just part of it even if you're building a four billion dollar company people are getting rejected and the thing is the founders were not really that bummed out about it because they had already done that work of convincing themselves that what they were building was working and was going to work investors just weren't seeing it yet some did enough did but they still faced a ton of rejection you don't need every investor to like what you're building you just need a few of them to believe and the good news is that today there's more investors than ever with more money than ever looking to invest in startups all right let's step back for a second and wrap this up there's a common theme to these myths that we talked about the idea that organizes all of these is the big myth which is this this isn't for you these ideas that are out there these misconceptions the founders have they add up to people thinking gosh maybe this isn't for me maybe I shouldn't start my startup because I don't know how to do this stuff I don't have a fancy Network I I don't know all these people I don't know how to pitch I don't know how to impress people but the reality is you can do this fundraising is just a bunch of coffee chats and zoom calls you you don't need to raise money to get started you can just start working on your startup you don't need permission from investors you don't need an intricate pitch you just need to make something people want and be able to talk about it like a normal human you do that every day with your friends and family using safes it's easier than ever for you to go raise the money that you need without lawyers and quickly and the terms you're going to get today mean that you can run your company exactly how you want there's not some secret special way that you have to run your startup you can call the shots you don't need a big Network and fancy connections to raise money and finally the rejection that you're going to experience doesn't mean anything it's just part of the process it turns out there's never been a better time in the history of the world to raise money than now so if you're thinking of doing a startup get building you can do this you can do all of this you can do this

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Note:

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How to Apply And Succeed at Y Combinator | Startup School

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Intro

Reference

hey everybody this is Dalton I am excited to talk to you today topic of

Why It's Worth Applying to YC

Reference

talk about why it's worth applying to Y combinator it's a good idea to sit down and think about your startup this is Evergreen advice regardless of IC and so going through and answering the application questions um to organize and clarify your thinking super helpful right go look at the questions um it'll help you think about your own business and maybe find some edge cases and so I think that's worth doing for everybody in addition if you're sitting there watching this presentation the odds uh that YC is good fit for you is pretty good and then let's talk about the cost benefit analysis of applying to YC we very intentionally designed the application to be fast and easy to fill out and so the the downside is you apply and you don't don't get in but you only spend a tiny bit of time doing it versus the potential upside being very big man that's that's a pretty good trade-off

Creating Luck

Reference

about luck a little bit um I've spoken about this in past YC talks and I've noticed a lot of applicants that have gotten into YC referenced this talk that I gave years ago so I want to remind you all of kind of My Philosophy about creating luck certain people are luckier than others but one of the ways you can create luck and become luckier is to put yourself out there more to create this luck you need to take risks you can systematically put yourself out there to be in situations where good things can happen to you or surprising upside things can happen to you on the flip side if you avoid situations where you face rejection like applying to YC you're reducing the surface area to get lucky and so I think this is pretty good Evergreen advice regardless of what you're doing which is if you're looking for a startup idea if you're trying to learn how to do sales if you're trying to recruit great employees you want to put yourself out there and take risks you want to try a lot of different stuff and the more you can develop this luck creation skill the better and deciding

Weird Reasons Not to Apply to YC

Reference

lot of the weird reasons people come up with not to apply to IC again I've talked to lots of Founders and so these are all coming

I Am Too Early

Reference

early this is a very common one if you look at the history of great YC companies that have gotten in many of them pivoted after they got in and so if that's not too early I don't know what is many folks haven't quit their job they get into YC they haven't written any code um there's there's honestly no such thing as too early um and so I would not count that as a valid reason next I am too far along the flip side of I'm too early um this one we hear a lot again it's it's pretty funny because we have folks that get into YC that have I don't know half a million dollars in annual recurring Revenue also a common one here these days is oh I'm too far along because I've already raised some money we have folks that apply and get accepted to YC that have raised literally a million dollars um often more depending on uh their specific situation and so if you don't have product Market fit as per the other talks you've heard here there's a good chance that you are not too far along from YC and much of the help we can give you is to kind of zero in on and focus on finding product Market fit all right and so I wouldn't say to yourself well

Being a YC founder is different than watching YC YouTube videos

Reference

one a lot of folks have seen our videos like this one and they think this is like a reasonable approximation of being an NYC that is not the case so let me just run through a few of these uh reasons why being a real YC founder is different than watching these videos first off we are real people believe it or not yeah um and by being in the batch you get our full attention you get real-time access to us we text with people all the time and you get to know us in person very different experience and so you get these one-on-one office hours with your group Partners folks like me and I'll tell you a secret there's tons of Secrets we tell you that we would never say on the internet we have to be you know we're careful about what things we say in this format and there's a whole breadth and depth of knowledge that you will only hear if you're NYC in addition there's a bunch of internal tools for Founders inside of YC work at a startup all of our proprietary fundraising data and tools our series a fundraising tools etc etc so so there's lots of stuff that go on behind the scenes it could not be

How to Stop Being Discouraged From Applying to YC

Reference

up a lot is a potential applicant is discouraged by someone in their life someone is trying to play the role of gatekeeper and that person is saying oh don't apply to YC you know and then there's a there's a few different reasons why they may say that you could ask someone that's saying oh don't apply to IC some of these questions hey so you're saying I shouldn't spend a few minutes filling out this application and applying to maybe getting in and I get half a million dollars up front and so if it's an investor discouraging you you should ask the investor oh so are you going to invest on what terms are you going to invest this is again this is a tip for you because if the investor is not willing to invest themselves they're simply saying they don't want to see you raise but they themselves are not going to invest you can call them out on that next sometimes folks are in some Market or some City or somewhere um and there's there's folks saying you know stay small stay in this country stay in the city don't think of this on a global scale YC's too big it's too far away and again I we fund people from all over the world from every city from every country and you want to ask them if if they're discouraging you from actually dreaming as big as you can dream because sometimes they are and I don't think that's great and then finally sometimes folks uh suggest not applying because some other theoretical thing might happen like maybe you'll do this maybe you'll raise a series a maybe you'll raise a seed round and again I want you to think about asking the person are you discouraging me from seizing an opportunity right in front of me for some theoretical thing that might happen and I think you'll you'll kind of see where they're coming from so anyway I think these are questions you can ask someone that's discouraging you from applying to YC and again maybe they'll

Other Reasons Why People Don't Apply to YC

Reference

few other reasons people sometimes don't apply one they think their company is too different or unique for YC to understand again if you look at our top companies list you'll see we fund companies in every vertical from every country and so again I I doubt it sometimes people are based on a location and they're not sure if we fund people in that location I assure you we do if you look at all the countries um for companies we fund we fund them all over sometimes people are worried that we funded a startup in the same space it's pretty common especially if it's a great startup idea to have multiple companies in the same space and so we don't hold that against someone okay and then finally people that have applied before um are upset about it and don't want to apply again because they fell they feel upset about not applying again I we're going to talk about this more later but I can't stress enough that it's actually a plus to have applied multiple times

Don't Overthink

Reference

point on this section is is a simple piece of advice don't overthink this just like anything with your startup don't overthink the decisions if something seems like it might be a good idea give it a shot it's as simple as that and we see a lot of people with these really complex ideas about the best time to apply to YC or when to apply to yce or what startup ideas to apply to IC with you know don't overthink this certainly not conducive with folks we've seen build big companies and look a lot of the reason people don't apply to ycee is because they're pretty confident they won't get it fair I would just suggest to everyone get used to doing things that you think probably won't work and get comfortable being uncomfortable in this way I think it's a really good lesson to set yourself up to do things that are kind of a long shot and the fact is most of the folks in the most recent YC batches are not first-time applicants there's some folks that applied five times six times seven times those folks had persistence they showed character and it worked for them and so uses just is just one little lesson on not being afraid of doing something you think has a relatively low odds of success here's a few good reasons not to apply to IC uh one is you don't want to work on the company for very long say you want to just work on it for the summer or six months and then go get a job okay yeah you know don't don't apply another one is if you don't think Venture uh capital is a good route to take all right that's fair I mean because because YC investing is a form of venture capital right and so if you don't want to pursue that type of business probably a good reason not to apply and then also if your business is not a technology startup say it's more of a traditional business where there's no technical component there's no programming there's no biotechnology okay that's probably a good reason not

YC's Application Tips

Reference

let's talk about the application and let me give you some tips for your YC application first off you apply on our website you don't need permission you don't need to email us you don't need to send us a deck you just apply on our website it really is that simple let me give you some tips on your application first fill the whole thing out fill out the founder biographies a lot of the worst applications say worse but the ones that are just not strong the founders did not take the time to fill them out okay that's obviously someone that didn't put much effort in and so actually fill it out pay attention to little things like grammar punctuation capitalization little stuff like that if you don't if you don't do it certainly shows to us that you may not be that serious about applying to YC so do that stuff make a Founder video that follows directions we put directions on how to do the video sometimes people don't follow the directions for whatever reason and I just want to give you a little tip our entire application process has these detailed instructions and we definitely take into account if you follow them in our selection criteria this is one of the ways to tell how detail-oriented someone is if they just follow directions and So Pro tip read all the stuff follow the directions we definitely weigh that in our decision next your written answers should be clear and concise don't write a novel more words is not better right you don't get bonus points for writing something that's so long we can't scroll down the

YC Application Reviewing: The Basics

Reference

about what it's like to be on our side of the table someone that reads applications and so here are the questions that I ask myself when I'm reviewing someone's YC application first off who are the founders what's their backstory how do they come together how do they know each other who on the team is doing what okay I ask myself that next what is their idea what are they working on um do I understand what they're doing does it seem interesting have I heard this before what exactly do they have today right today at this moment in time is it built are there users um I really want to know what the current state of the union is on the product in addition is there any evidence that people want this they have customers they have users um are they using their own product in addition is there evidence that the founders are serious and serious in this in this sense is the following that they really want to do a startup right for instance if someone has left their job to work on this full-time that's an Evidence of seriousness if someone has applied multiple times and every time they apply they make more progress that's evidence of seriousness you see what I'm saying like it's it's trying to get the sense if they're just throwing in the application with for fun or if they really are serious about doing a startup and then finally um I look for what's impressive or unique or special about the application this could be different things sometimes the founders are unique sometimes the traction is unique sometimes the ideas and idea I've never heard before and so I really look for something that really stands out about the application what I do with this data that I just told you that I read is an application reader is I tell myself a little story and so I might say something again this is all my head but I might say something like oh this is the story of two friends we're both programmers working on infrastructure at Facebook and they quit their jobs three months ago to build a new Cloud hosting company they built a basic demo and have one first customer and that customer is using it on this website and I can go look at the website and our plan has become the top hosting company for all react apps great do you see how that's a story it has characters it has a beginning it has an end I understand what's going on um if I can tell this kind of story about your company by reading your application it means it was a good application on the flip side weak applications obfuscate everything and so I as a reader can't tell what's going on I don't understand what the idea actually is I don't understand the back story like why do these people know each other how do they meet I can't tell if they built it I have no idea you know I can't see a demo maybe it's built I don't know I can't tell if they have customers they might have customers but I can't actually tell and so it's basically impossible for me to tell a story about you because I don't even understand the basics to me this is actually a deep tourism for all aspects of your startup which is if I can't even understand basics of what you're trying to communicate to me you're not even the ball in the ballpark of convincing me right like if I don't even know if I can't parse what you're trying to say the odds of you convincing someone is basically zero and so you want to really make sure people understand the basics here's an example that I threw up there's a company called gitlab it's publicly traded you can go buy their stock it's a multi-billion dollar company this is from their YC application I just pulled it off to give you an example of what a clear description is do you see they're very concrete about what it is what it does who uses it they say a hundred thousand organizations use it they say programmers Apple use it this is really well done so me as a reader reading this Crystal Clear what gitlap is great application and look they did it in just a few sentences very well done here is a fake thing that I wrote because I don't want to shame anyone and I I put this together I don't even know if this is really exaggerated these are these are the kinds of things I read in applications sometimes where there are words here the words say things there's there's words I recognize but if you ask me to summarize what these three or four sentences are and tell a story about what you do or what it is or how it's different I would not be able to tell you this just turns my brain off so there you go please don't submit stuff like this I still don't know what they do I wrote this and I have no idea what this is okay let me give you some other tips our entire system rewards honest people acting in good faith if there's some hint somewhere in your application or elsewhere that you are being misleading in your answers your application will be rejected uh we're sympathetic to honest mistakes but anyone that's doing intentional obfuscation or misrepresentation of things in their application like revenue or traction your founder background your educational history you name it that just that's disqualifying you know it's pretty common to see people kind of try to misrepresent revenue or make it look like it's monthly revenue is really annual revenue so just don't do things like this we notice and we really um don't like it as an application reader this is like automatic disqualification okay in addition I want you all to understand extraordinary claims on your application require extraordinary evidence and so if your claim are hey we have no users cool like there's not a lot of evidence you would need to show there but if you want to argue that some big impressive company is one of your customers you should be prepared to back that up or demonstrate that they are actually one of your customers shouldn't be a problem in the case of gitlab it wasn't a problem for

What Are Your Odds of Getting an Interview at YC?

Reference

around what their odds are of getting an interview at ycee it's very hard to answer this question but I'm gonna do my best because it gets asked so much probably the biggest variable for if someone is selected for interview is the quality and quantity of the technical Talent on the founding team so if there is a team that's applying or at least one of the of the founders is it a skill set level to be hired into a technical role at a top YC company they have 5x better odds than teams that don't and quick note on this internships are okay so say you're an intern at stripe or Airbnb or a place like that okay that counts and so it's very helpful to have technical Talent on the founding team and this this includes biotech hard tech things like that right this isn't just software but definitely something we look at and then as per this talk we did earlier in startup School dispatch about tar pit ideas teams where there aren't technical Founders and they're working on an unlaunched tarpet idea those folks have the lowest odds that's a fact how can you improve your odds of getting an interview well first off add technical talent to the team and so this is why we have co-founder matching there's a number of folks even in the current batch that met via co-founder matching and it works we love it what a great way to add technical talent to your team hooray quick note on this the entire YC model was built to not require networking we don't want warm intros we don't want pitch decks we don't want to hop on a quick call that is not how YC Works in our funding decisions we built a system that is optimized for funding complete strangers that fill out a form on our website there's no tricks here it really is that simple and if you ask alumni the folks that I found are complete strangers that I have not met before so beware of folks out in the world that claim they can help you get into YC they claim they're connected with some other investors and they want something they want Equity they want money they're basically scammers and so you should be aware that there's lots of folks out there in startup ecosystems that kind of victimize aspiring Founders giving these kinds of people Equity or whatever in

How to Prepare for Your YC Interview

Reference

interview let me give you some interview tips and preparation how do YC interviews work if you're selected for interviews after applying there's just a 10 minute Zoom call with us we expect all the founders on your side to be there there's usually two to four folks from YC on the call on our side and you should assume during the interview that we have the application that you applied with open on our screen and we're looking at your application while we're asking you questions or taking notes all right this is how this is how our workflow works on our side now the first thing to understand is that interviewers are trained to ask basic questions help us understand your startup these are not trick questions these are basic simple questions and these questions are highly context dependent some folks over prepare for interviews in a way that is not relevant to them and they're surprised by the questions we ask you you shouldn't be surprised so for example if you are pre-launch we often ask questions that are relevant to a pre-launch company when are you going to launch things like that if you are in a regulated space say fintech or insurance or things like that we're going to ask you questions related to your regulatory strategy if you're in a space where there's many competitors we're going to ask you about your differentiation these are all very basic questions and so I'd encourage you to walk into the interview with an open mind and expect to begin the interview answering these basic questions and hopefully this will turn into a quick conversation about different topics once we understand the basics for our initial questions probably the biggest mistake I see in folks preparing for their YC interview is to treat it like an adversarial process they treat it like I don't know applying to college or I don't I don't know how to explain it but they you know we're we're like the other team and their job is to like work against us and there's a lot of YC interview devices out there that I think is pretty bad because it treats us as an adversarial process and like let me make something super clear to you the people on our side of the zoom call when you interview are likely the people that are going to be working with your company if you're accepted if you act weird to them or mean to them or adversarial to them that is completely going to backfire on you because these are the folks you're going to be working with and the fact is interview is ask themselves this question do I believe I can have a productive productive working relationship with these Founders okay so to give you some examples Founders that recite memorize speeches where they have some memorized paragraph they just shout at us oh man do we not like that uh Founders that don't listen to the question were asked and they did all this preparation so they think they know what we're going to ask and they recite back some thing man do we not like that and then finally Founders that seem to be stretching the truth right like if we ask very simple questions and we get the sense that you're trying to fool us or lie to us that's going to get you low scores right because we're the people you're going to be working with and um if you don't seem trustworthy that factors in okay so when you're preparing for this remember this stuff in terms of preparing for the interview most of the folks that get into YC uh read the instructions provide a lot of instructions we also have official videos like this particular video is an official video put up by YC some folks do extra interview practice uh with other folks which can be helpful if it helps you build confidence so that in the moment you're not super nervous but I just want to know it can backfire if you train yourself if you do too much preparation and you just give us nonsense robotic answers so if you've done so much interview preparation that every time we ask a question you immediately spout off some memorized answer that will frustrate us and again watch out for being coached by people to be intentionally confusing or misleading about what your company does what the market is what your revenue is we've heard a lot of horror stories out there of someone being coached in an interview preparation basically try to fool us and that's not helpful be thoughtful about what you say and don't take anyone's advice too

What Makes a Successful Interview at YC?

Reference

seriously especially if it's not advice that we're putting out ourselves okay so let's talk about a successful interview someone that gets into YC a good interview is one where all the basic questions that we ask are answered well in a good interview the founders can demonstrate a Mastery of their own business they understand their own numbers they understand the risks they have a crisp idea on what to work on next they have a really fleshed out view of the whole business in our opinion the founders are credible they're honest they're self-aware about what the real challenges are right like they're not in denial about this but they still are confident when they are speaking about their business and then finally we successful interviewees are know how to be themselves and I know this is like annoying when people like Oh Be Yourself what does that mean let me explain what I mean by be yourself it means we want you to show up in an authentic way and not act like you're on a Shark Tank Episode or a pitch competition there's few things more Awkward for us on the other side of the table when we you know we get on a call and we want to talk to you and you're like hello people we are here to tell you about Urban oh man that really is rough on us the interviewers and so try to just be natural and try to have a good conversation and remember we're people that want to see you succeed or people that are looking for folks who are excited to work with try to show who your real self is for us to get excited about working with if someone interviews YC and they are not selected we send you an email it has some quick feedback we do our best to make it actionable and uh focused on the most important factors in our decision internalizing this feedback and demonstrating that you've addressed it in a future application is heavily weighted in your favor you see what I'm saying for folks that apply and don't get in and then they address the feedback from the interviewers the next time they apply wow does that help we really keep track of this stuff I promise we do and for folks that really internalize it and address the feedback that helps in closing um applying to Y combinator is simple it's well documented it's a pretty good bet in that applying to IC is a tiny time commitment with uncapped upside that could change everything for you and your startup so it's high Roi and then I just want to encourage everyone out there to nurture this mentality of creating luck which means putting yourself out there over and over and over again bring this to all aspects of your startups because it's a great lesson that's it thanks so much everybody

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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.

Setting KPIs and Goals | Startup School

Video URL

KPIs and Prioritization for an Early-Stage Startup

Reference

foreign good morning I'm Divya and today I'm going to talk a little bit about kpis and prioritization for an early stage startup this is my second batch as a visiting group partner here at YC where I've worked with hundreds of Founders on hitting their demo day goals and navigating goal setting and execution as they search for product Market fit I myself am a two-time YC founder and have also held leadership roles at several fast growth startups just as a heads up I'm going to be giving you some homework at the end of this talk my hope is that today we can improve the way you spend your time and expedite your journey to product Market fit so why are we talking about this now that you're a startup founder there is nobody telling you how to spend your time you might have heard some version of and not or implying that you have to turn over every Rock and optimize every metric to build a successful startup while this is true to some extent you still have to choose how you're going to spend your time each day ultimately as a startup founder you want to get to product Market fit as quickly as possible prioritization matters and having Clarity on your kpis is crucial for prioritization let's start by defining these terms kpi stands for key performance indicator these are the metrics that you track and report on both internally and externally these metrics make sure that you're measuring what matters and they tell you whether what you're doing is working prioritization tells you in what order you need to tackle your work each day there are infinite things you could be doing each day and your work is never done but time is finite prioritization tells you how you spend your time each day how you direct your team to spend their time each day when you have one and most importantly prioritization helps you decide which super important things on your list you don't get to today here's what your task list may look like note that the highlighted items in yellow are the ones that I might decide to prioritize also note that every item on this list feels important yet only a few are likely to truly move your business forward and toward product Market fit in a world where you can't possibly get to everything you need to prioritize the tasks that'll move you to word your kpis faster so why are kpis and prioritization in one talk well prioritization means that you're working on the things most likely to impact your top kpis so it's critical that you choose the right kpis and then are honest with yourself about which tasks are most likely to move those kpis when you're moving fast it's extra important to make sure you're running in the right direction I'll use this analogy a few times today so look out for it we come across companies all the time who are working so hard but optimizing for the wrong thing we call these vanity metrics things that make you feel good and things that you can brag about on LinkedIn at the end of the day if you fall into the Trap of making these your primary kpis you're going to be spending your time on the wrong things so why are kpis and prioritization important well as a Founder no one is going to tell you how to spend your time it's very easy to feel busy and feel productive and not be moving your business forward here are some common examples of things you can be doing to feel busy today optimizing paperwork tasks maybe we're good enough is all that you needed perfectionism and craft craftsmanship on a feature that nobody's using anyway premature optimization or building for scale that you don't need to yet or choosing a more intellectually hard problem to solve rather than building what your users want I remember in the early days of one of my companies we were trying to pick a legal firm to work with sure you need a lawyer and you need to need to pick a good lawyer there are so many to interview and so many of them wanted to take us out to lunch or to drinks have us visit their offices The Works you guys this felt flattering and glamorous we felt so busy but at the end of the day we hadn't even launched yeah choose a good lawyer no this is not impacting your kpis do it quickly and move on again it's easy to run fast but in the wrong direction you need to run fast and be running in the right direction when you're doing a startup time is at a premium the faster you get to market the sooner you earn money and you can reinvest that money in your business and be less dependent on outside capital or even if you want to keep raising you'll have more leverage to raise money on better terms taking more time to get to Market means you burn more money lastly moving slowly means that competitors have more time to copy you and catch up time spent without making real progress also has an emotional and mental cost and can raise

How to Prioritize Your Time in the Startup

Reference

that don't matter so let's talk about how to prioritize there are two ways we can talk about prioritization one is how you spend your time on your startup versus other things in your life listen guys I can't tell you this this is a very personal decision this depends on what else is going on in your life and how you want to spend your time this is a whole separate topic that we won't spend much time on today that said I have two important points one remember speed matters and two this is an area where it's really important to align with your co-founder on expectations when we discuss prioritization we mean how do you spend the time you've allocated to working on your startup let's make sure that you're doing the

Setting the Right KPI Goals for Prioritization

Reference

we're going to talk more about how to set kpis in the next section but I want to talk about why this is critical for prioritization so first you need to identify your top kpis if you've launched your primary kpi should be Revenue growth if you don't want to make Revenue growth your primary kpi you need to really push yourself on why we talk more about this later in this talk but this is important enough to mention here a non-revenue kpi is rarely the right one and we'll talk about a few exceptions later if your pre-launch your kpis in the short term might be weeks until launch or number of conversations with users but once you do launch please quickly shift your kpis to revenue growth second you need to decide what's your kpi goal for this week we'll talk about goal setting later but assume that you have some goal for example 10 more paying customers by next week make sure this ladders up to any longer term goals that you have the reason setting the right kpi goals is critical is that it'll remind you of the urgency of growing fast early growth compounds and tracking goals weekly reminds you of this here at YC we talk a lot about the early days of Airbnb where the founding team wrote their weekly kpi goals on their bathroom mirror so they were facing that reality multiple times a day in addition to identifying the right kpis you also need to identify your biggest bottleneck or problem in moving your top kpi here's an example from a YC company called super daily a daily grocery Subscription Service in India that sold to swiggy in 2018. super daily faced a scenario early on when they launched V1 of their product there were a ton of things to be optimized you guys picture this business it's operationally complex the mobile app Ops tooling Inventory management and a whole lot of messy on the ground Logistics with their North Star was growth and they were able to see clearly that their bottleneck was the conversion of users who actually got pretty far down the sign up flow and then churned so they asked themselves why are high intent users not converting that was the biggest problem they needed to solve and the first tasks they prioritized were conversations and experiments to understand this by focusing on this question they realized that high intent users were dropping out because a lot of users wanted a specific milk brand that super daily didn't carry it wasn't a ux friction issue or an app issue so they onboarded that milk brand rather than beautifying their sign up screen once they solved this then they started looking at how to convert users that were maybe farther up the funnel or lower intent users that were referred by word of mouth or people that were casually checking out super daily so by the time those users got farther down the funnel to the highest intent phase they now had that top milk brand on the app and they knew that they weren't optimizing a funnel that would leak farther down by onboarding this new brand super daily

Simple Framework to Optimize KPI Goal

Reference

prioritize aggressively to optimize for that kpi goal number one write down any ideas that you might have to hit your goals don't start working on them right away it's really easy to chase shiny new things just write them down next you want to rank by probability of success and then sub-rank with respect to complexity or how long it's going to take you to do this task pick only a couple of things to try once you pick a few tasks and start working on them if your kpi isn't moving be really honest about why ask why several times until you feel like you can actually understand the real reason even if it's hard to hear per the example of super daily earlier it might be something simple like the milk brand do Retros in your weekly initiatives are you predicting impact and complexity well did you complete all the tasks you were expecting to complete in the Sprint if not next time break them down more give yourself time blocks to reduce context switching or maybe did you accidentally work on some of those fake progress tasks we talked about just do better next time and then move fast learn and then do something differently the next time if what you did didn't work the definition of insanity is doing the same thing over and over and expecting different results don't let indecision slow you down just pick a path and keep moving ideally you're going to be growing fast if not talk to a lot of users fast churn through your bad ideas fast so you can get to working on the right good

5 Things That Should Should Not End Up on Your Task List

Reference

here are some things that should and should not end up on your list in most cases since we're talking about the 90 case here and specifically talking about early stage startups here are a list of example tasks that you should see on your task list talking to users and then building and iterating based on user feedback when you're spending time talking to your customers and responding to support emails there is a direct path to revenue growth the only way you know what your customers want is by talking to them all the time and the only way to grow is by building something people want not much else is going to help you at this stage here are some things that should not end up on your task list AKA fake progress passive fundraising conversations or coffees when you aren't actively raising when you do decide to raise it should be deliberate focused and time boxed conference attendances other than a few select Industries this generally won't move your needle in an early stage third arbitrary technical Milestones spending time optimizing technical benchmarks launching an Android app unless you're hearing clearly from your users that this is a burning pain point this is probably fake progress at this point you guys this fake progress list it's not anything to be ashamed about smart people put these things on their list all the time we've all done it these are all tasks that can make you feel good they boost your ego their metrics that you can brag about on LinkedIn they might make your mom proud they might make your ex-boyfriend jealous but what they don't do is they don't necessarily get you closer to product Market fit here are some common tricks your brain plays on you when you're trying to prioritize these are tricks and traps that your mind has to help you avoid negative feelings like shame despair embarrassment self-doubt many people are drawn to low leverage tasks why they provide a sense of accomplishment they allow you to check things off your list and it's so tangible at a time when your startup's future is uncertain there can be so much satisfaction in checking tasks off a list don't fall into this trap here are some examples of this spending too much time optimizing paperwork or unlicensing incorporation Equity this is not an area where you need to optimize or innovate just follow the standard advice to stay legal and compliant slightly cheaper workers comp insurance or slightly better Equity structure is not going to make or break your business taking meetings with potential investors advisors Partners or building cool hard features that you don't know people want yet again these things can make you feel really good and really smart solving hard problems is awesome unfortunately it's not going to help you find product Market fit sooner it's just going to be things you're checking off a list the second mental trap I want to talk about is that sometimes you can fool yourself into thinking something is working when it's really not be honest with yourself it doesn't feel good to admit to yourself or your teammates or your investors or your mom the things aren't going well but you're not doing yourself any favors by not diagnosing problems early and often slow growth can be deceptive it's easy to mistake slow growth for product Market fit as someone that's worked at both kind of slow steady growth companies my own startups and companies with clear product Market fit like doordash trust me you guys these types of growth feel fundamentally different third trap I want to talk about is perfectionism or indecision blocking progress when nothing seems to be working it's really easy to make every decision feel like it's going to make or break your company in reality most decisions don't matter and for the ones that do it's okay to decide wrong first and then fix it later just keep moving so the best case scenario you know the one you can put on a pedestal is a scenario where you make the right decision quickly every time this is completely impossible no one's going to achieve this I recommend the second best option which is to make pretty good decisions quickly and then if they turn out to be wrong fail learn and switch to what's working quickly as a startup founder you have dozens of decisions to make every day don't waste time on the ones that won't help you get to product Market fit remember if it's a tough call it actually probably means you can't go wrong so pick one keep moving the fourth mental trap I want to talk about is spending too much time on downside protection instead of chasing upside downside protection is straightforward and satisfying fixing little problems is very easy but rarely where the Innovation happens chasing upside requires risk taking creativity a lot of false starts so get in as many iterations as you can for example we hear a lot of Ops teams talking about getting themselves out of spreadsheets y'all at this stage spreadsheets are fine until they're not if they're working stick with them it's good to do things that don't scale as long as they're not breaking instead spend your time finding out what your users need in order to use your product every day instead of once a week that's the upside chasing that we're talking about the last trap I want to call out today is chipping away at small problems when there's a big existential one looming that maybe you don't want to face for example you may tell yourself hey okay my 150 users are asking for one click ordering let me go build it you guys you only have 150 users this is a problem maybe you've only had 150 users for the past three months and they're starting to churn and no one knew is signing up that's your biggest problem go solve that so here's a quick recap on prioritization you'll never get to everything on your task list you have to use kpis to prioritize your work and only work on the biggest

Choosing the Right KPIs for your Startup

Reference

now let's talk about how to choose the right kpis remember we can't afford to waste time running fast in the wrong direction let's define primary and secondary kpis your primary kpi or primary metric is the main metric you use to measure whether your business is on track for the vast majority of startups your primary kpi should be growth and ideally Revenue growth this indicates that you've built something people want and you're on track to building a huge business as we've mentioned there are a few exceptions to this for example maybe a Marketplace business might choose signups or gmv as their primary kpi or an early Enterprise business with a long sales cycle might choose letters of intent secondary kpis are things that need to be tracked moving in the right direction to make sure you're not cheating on your primary kpi or to give you an early signal when your primary kpi is very lagging here are some examples of secondary kpis retention and churn these are going to actually contribute to your Revenue growth so they're very important to track unit economics you need to make sure you're making money on each user and not giving away free money and calling it growth customer acquisition cost depending on your stage you may not need to optimize this right now just have a sense for your payback period and whether you'll make or lose money per customer acquired keep this list small and relevant three to five secondary kpis is reasonable I've also included a short list here of vanity metrics as we discussed earlier it is very easy even for good Founders to fall into the Trap of prioritizing for these metrics they feel good and they provide external validation you find these creeping into your task list just ask yourself is this directly on my path to revenue growth is this my biggest blocker to illustrate what a laser focus on growth looks like I dug up some examples here's a side by side comparison of doordash on demo day which everyone knows and my own startup Rickshaw which was also a delivery platform we went through YC right after doordash did and doordash eventually acquired Rickshaw in 2017. both companies had a laser focus on order volume as a Top Line metric this allowed for Clear focused execution and resulted in strong and very similar early traction however post demo day the paths diverged a little bit Rickshaw had a bit of trouble fundraising despite comparable early attraction to doordash this caused us to make a decision out of fear and instead of continuing to have a clear focus on Top Line growth as doordash did we tried to optimize for both growth and unit economics we tried to hedge and this was very dangerous this split Focus put us in a weird no man's land of slow growth which as we described before can kill startups there is a lot more Nuance about profitability versus growth that I won't get into here the main message today is to choose your

How to Set Targets

Reference

primary kpis and don't try to get smart and optimize for two or more hard things at once so now that we've talked about how to define primary and secondary kpis how do we set targets assuming growth is your primary kpi how much growth is enough this depends on your business and your stage but in Paul Graham's classic essay about growth she notes that for a company going through YC five to seven percent week over week is growth is good and a ten percent week over week growth is exceptional as I've said a few times now small changes in weekly or monthly growth growth rate really compound and make a difference in the long run so early growth is better than late growth if you can choose that number on your bathroom mirror per the Airbnb story reminds you to focus on this early here are a few factors that might impact your growth rate that you might want to keep in mind first latent demand might boost early growth perhaps some early users will be willing to put up with an inferior product experience because you're solving an urgent need but that growth rate might be tougher to sustain later for Enterprise businesses the length of your sales cycle might be long this should go up down over time but it might impact early kpi and goal setting in these cases you can set goals around other process metrics for example leads in different stages of your funnel another thing that might be impacting your growth rate is whether you're doing organic or paid user acquisition early on organic is ideal you should know where to find your first few passionate users and talk to them directly and ideally have them spread the word you can also run paid acquisition tests so that once you have a product that's growing organically and a sense for payback period you can crank out the ads crank up the ad spend to drive growth but please don't do this too early and don't leak money on this strategy accidentally the last thing I want to talk about on the slide is retention and engagement we get a common question should we focus on getting new users or focused on retaining our existing users the short answer to this is you have to do both the slightly longer nuanced answer is that both will impact your Revenue growth so get a sense for which one's going to have more impact first make sure you don't have a problem with churn and that your users are sticking around long enough to pay back their acquisition cost and to tell their friends you don't want to bring new customers into a substandard product but beyond that of course focus on bringing in new users ultimately both these metrics will need to be strong to sustain a healthy Revenue growth to share another example from Super daily early on they realized that the acquisition numbers they were tracking were not reflecting a healthy growing business and could be artificially boosted due to paid promos to protect against this they switched their track metric from sign ups which was too easy to game to tracking customers who who'd placed five or more orders since they saw this as a leading indicator to customers that were very likely to become long-term Revenue generating customers this helped the super daily teams align their marketing and their overall Revenue goals to chase top line revenue growth when setting targets there are two possible approaches and you can and actually should do both your first option is a top-down approach set a goal or a milestone that you need to reach sometime in the future for example five thousand dollars in mrr by the end of startup School back into that Weekly growth rate that you need to achieve to achieve that longer term goal the Airbnb demo day example is a great example of this set a Target and obsess over it compounding matters so getting an early start helps a lot your second option is a Bottoms Up approach ask yourself what do you think is realistic for you to get done in the next week then you can project out from there as a thought exercise when doing a Bottoms Up goal setting you can ask yourself what could we achieve with unlimited funding a lot of people in their heads think that funding is a bottleneck so let's remove that what could we do in the next week with unlimited money or resources then ask yourself what creative ways can we still achieve that even with limited funding set your goal between top down and bottom up either is actually fine I recommend periodically doing both to see whether what you're doing is realistic achievable and ambitious at the same time just make sure that you're checking to make sure that you're always on track to build a big business and aren't accidentally ending up in that no man's land of underwhelming but consistent growth let's talk a little bit more about some non-revenue kpis that may be tempting but not always right first CAC to LTV ratio you might hear these buzzwords together these are generally concerns kind of later in your business but they usually come post product Market fit once you have a fundamental business that you know people want and then you need to reliably scale your user base so for now we recommend you only worry about payback period ideally your payback period is zero as in zero dollars spent on CAC so customers are profitable on day one if you do need to spend on CAC or unpaid acquisition get a sense for how quickly users pay back that CAC and whether you're reliably hitting it does your retention rate make this work LTV can really be a rabbit hole for early stage companies and it's really hard to calculate so just make sure your payback period is reasonable and you're making money per user a second tempting kpi I want to talk about is free sign ups or daily active users I'll start by saying this paying customers will have very different expectations for a product than for than free customers will so if you plan to charge for your product eventually don't mess around getting feedback from free customers it'll likely be the wrong feedback get paid from day one or at least don't count those users as part of your growth the main exception here is from marketplaces or products that have a strong Network effect and need volume in order to have utility Uber is a great example of this without enough drivers on the platform the user experience was not good enough for writers to pay a premium for in these cases sign ups or gmv can sometimes suffice if no revenue is being generated yet I have a couple of stories of startups spending too much time on sign ups and shifting to revenue too late in the game Scribd was an early YC company that went through in summer 2006. they spent their first four years primarily growing a free product and they were afraid of losing their millions of customers if they started charging as you can see in this graph in year five so remember they started in 2006 in mid-2010 they started charging and while they did lose over 90 percent of their customers their revenue grew by Infinity percent they finally had a business and while Scribd already had millions of users it wasn't until they started charging that they started to really learn what their paying users wanted I want to quickly talk about a few exceptions other exceptions to revenue kpis and this is hardware companies biotech companies Enterprise businesses with a long long sales cycle and these businesses it can be more challenging to measure growth and in these cases something like letters of intent contracts maybe even technical Milestones might be reasonable metrics but please keep yourself honest and make sure that these are actually indicators of actual progress and growth and audit them frequently now I challenge each of you at the end of this talk you should each write down your primary and secondary kpis and set ambitious targets next audit your task list for the week and make sure you are laser focused on hitting those goals I know a lot of you are in slack and WhatsApp groups for startup school I encourage you to share your kpis and your goals with your community and get feedback and hold yourselves accountable I hope this talk helps at least one of you get to product Market fit faster foreign

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