All About Pivoting
Startup School 2019

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Pivoting overview

- What is a pivot?

- Why you should pivot

- When you should pivot

- Evaluating ideas to pivot to

The term "pivot"

- If you are very very early stage it's not even exactly "pivoting" - its just idea iteration - "pivoting" usually implies changing a product that is fully live and has customers (for example, Slack)

- Pivoting is not a big bang moment - its just a thing you do when you iterate on ideas - its a lightweight thing

- A company that is not quickly ideating and rapidly learning and changing assumptions in the beginning is probably not moving fast enough

Why pivot?

- Opportunity cost: "the loss of potential gain from other alternatives when one alternative is chosen."

- Here's an half-serious line of pseudocode:

```
if ((how well things are working) / (# of months of
concerted full-time effort)) < (excitement to work on
another idea) * (confidence that you can find an idea
that works better)) {

    you_should_pivot()

}
```
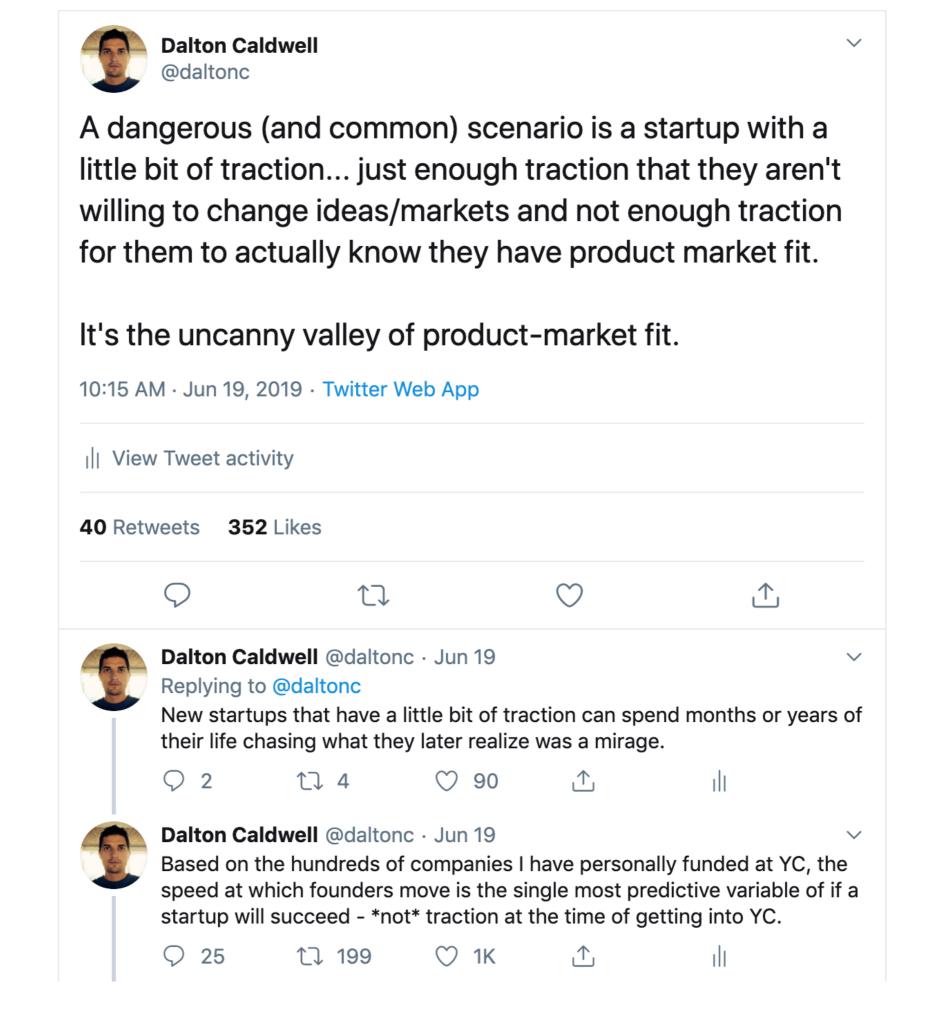
Good reasons to pivot

- I hate working on it

- It's not growing

- I'm not a good fit to be working on this idea

- I am relying on an external factor outside of my control to make my startup take off

- I'm out of ideas on what to do differently to make it start working

Good reasons not to pivot

- You are trying to run away from doing hard work

- You are repeatedly changing ideas and giving up on them before launching and doing sales

- You read an article about some hot new trend that is popular with investors and want to chase it

Why people take too long to pivot

- Loss aversion

- Have a little bit of traction

- People are polite and have a hard time telling you they don't want what you are making in a direct way

- Fear of admitting weakness/defeat

- Putting blame re:why things aren't working on customers/investors

- Belief given to you by inspirational sources that "if you just believe hard enough things are going to change"

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@daltonc

A dangerous (and common) scenario is a startup with a little bit of traction... just enough traction that they aren't willing to change ideas/markets and not enough traction for them to actually know they have product market fit.

It's the uncanny valley of product-market fit.

10:15 AM · Jun 19, 2019 · Twitter Web App

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Dalton Caldwell @daltonc · Jun 19
Replying to @daltonc
New startups that have a little bit of traction can spend months or years of their life chasing what they later realize was a mirage.

💬 2   ↻ 4   ♡ 90

Dalton Caldwell @daltonc · Jun 19
Based on the hundreds of companies I have personally funded at YC, the speed at which founders move is the single most predictive variable of if a startup will succeed - *not* traction at the time of getting into YC.

💬 25   ↻ 199   ♡ 1K

Anecdotes

- There are lots of anecdotes about people who "just believed hard enough"

- These are nice and uplifting and inspirational which is a good thing

- However just as stories about people who win the lottery don't help you yourself win the lottery - these anecdotes aren't terribly instructive or helpful

- Ultimately you are the ultimate decider of what to do, you have by far the most information, and you reap the rewards or loss of the decisions you make

Reminder about product market fit

- Most people never get it

- You know you have it when growth is not your biggest problem - keeping up with demand is

- If you don't have PMF and you have given an idea your best then it can be easier to get PMF by changing ideas than continuing to throw good time/money after bad

  - "shots on goal"

How to find a better idea

- Try to find something the founders are more excited about and makes them feel more optimistic to work on it

  - Corollary: being more ambitious is often counter-intuitively easier

- Honest assessment of founders strengths/weaknesses and attempt to find something with better founder market-fit

- Best to find something easy to get started and validate market feedback

It's OK to not work an idea that requires venture capital

- Most companies in the world that people start don't require VC. That is good.

- Trying to raise money for a company where VC doesn't make sense is not a great use of anyones time

- If the way you evaluate the quality of an idea is from investors you are going to get pushed down the VC rabbit hole

Venture vs non-venture scale ideas

- There is no guidebook I am aware of for what "venture scale means"

- Some suggestions I have:

  - Can I imagine this business possibly generating 100s of millions or billions in net revenue per year?

  - Can I imagine the revenue growth to get to that scale taking less than ten years?

  - Can I imagine this as a publicly traded company?

  - Kevin's first lecture talks about this

Venture vs non-venture scale ideas

- Other usual properties of a venture-backable business:

  - Technology is a key component, and the technology is built by the founders rather than outsourced

  - Extremely high "software" margins

  - A large % of stuff on Shark Tank is not a venture-backable business

When is the best time to pivot

- As soon as possible when these things happen:

  - You have launched and have been trying to get users for weeks or months and it feels hopeless

  - When the idea is impossible to get started on b/c it takes years of building/too much capital etc

  - You know in your heart its not going to work

More pivoting thoughts

- Pivoting over and over and over again can cause whiplash

  - Whiplash makes founders give up -> kills the company

- Founders that are incapable of changing ideas struggle, founders that change ideas too much struggle. Find the happy medium

- Having employees while pivoting is extra hard and not recommended - best to do it with just founders

Idea quality scores

- Here are some criteria you can use to evaluate your idea

  - How big of an idea it seems to be: 1-10

  - Founder/market fit: 1-10

  - How easy it is to get started on the idea: 1-10

  - Early market feedback from customers: 1-10

- Overall score: 1-10

Brex overview

- Was in YC W17 doing a different idea

- Pivoted during the batch

- True product-market fit

- Raised 100s of millions in 2 years

Brex pre-pivot

- VR headset hardware

  - How big it seems: 5/10

  - Founder/market fit: 1/10

  - How easy to get started: 2/10

  - Early market feedback: 2/10

- Overall score: 2.5/10

Brex post-pivot

- Credit card for startups

  - How big it seems: 10/10

  - Founder/market fit: 10/10

  - How easy to get started: 3/10

  - Early market feedback: 8/10

- Overall score 7.8/10

Retool pre-pivot

- Venmo for UK

  - How big it seems: 7/10

  - Founder/market fit: 3/10

  - How easy to get started: 7/10

  - Early market feedback: 3/10

- Overall score: 5/10

Retool overview

- Was in YC W17

- Started with a different idea from Retool

- A rising star in our SaaS portfolio and a product every one of you should probably use!

Retool post-pivot

- No-code internal tools builder

  - How big it seems: 10/10

  - Founder/market fit: 10/10

  - How easy to get started: 7/10

  - Early market feedback: 5/10

- Overall score: 8/10

Magic overview

- In YC W15

- Pivoted during the batch

- Successfully built a profitable, sustainable company used and adored by many loyal users

Magic pre-pivot

- Blood pressure coach

  - How big it seems: 2/10

  - Founder/market fit: 2/10

  - How easy to get started: 8/10

  - Early market feedback: 2/10

- Overall score: 3.5/10

Magic post-pivot

- "Text a number to do anything"

  - How big it seems: 10/10

  - Founder/market fit: 2/10

  - How easy to get started: 10/10

  - Early market feedback: 10/10

- Overall score: 8/10

Segment overview

- In YC S11

- Pivoted several times, including over a year after the batch

- Worth >1B now and a top data infrastructure company

Segment pre-pivot

- Classroom feedback tool

  - How big it seems: 2/10

  - Founder/market fit: 5/10

  - How easy to get started: 8/10

  - Early market feedback: 5/10

- Overall score: 5/10

Segment post-pivot

- Data collection tool

  - How big it seems: 5/10

  - Founder/market fit: 10/10

  - How easy to get started: 10/10

  - Early market feedback: 10/10

- Overall score: 8.75/10

In summary

- Changing your idea is part of doing a startup, and the earlier you lock into the right idea the better

- When you are considering a pivot it should not feel like some huge monumental decision

- You should follow pivoting best practices